AMERICAN BANKERS ASSOCIATION JOURNAL

Are We Going to Have Inflation?

By GEORGE E. PUTNAM

Prophecies of the Past. Steps in Process by Which Gold Accumulation Was Expected to Bring About Inflation. Appraisal of the Forces Which Have Prevented It. Factors Which Observers Overlooked. Installment Buying a Symptom.

THE question "Are we going to have inflation?" is one of the most difficult and disturbing questions which business men have had to consider. Probably no other economic question has been so recurrent during the past three years or has been answered so indefinitely. All through 1922 and into the early months of 1923, the rise in the level of prices prompted the warning that we might be getting into a period of inflation. The same feeling manifested itself in the spring of 1924, and again in the spring of 1925. On each occasion, however, when inflation seemed to be just around the corner, the rise in prices was checked and the fear of inflation was temporarily dispelled.

So accustomed have business men now become to the failure of the promised inflation to materialize, that some of them are beginning to wonder whether they have not been unduly alarmed, all along, over what may prove to be nothing more than the idle chatter of theoretical economists.

ONE of the interesting features in connection with the late inflationary fear was the fact that it owed its origin, in part, to the declarations of prominent European observers. When England began to send large quantities of gold to this country, the prediction was made by a number of British bankers and economists that the effect of such shipments would be to inflate our level of prices. It was pointed out that our high tariff wall had made it impossible for them and other European debtors to send us goods in settlement of their liabilities, so their only hope was to send us gold and to continue to send us gold until our level of prices rose to a point where we should be forced to take their goods in spite of tariff barriers.

IT was difficult to escape the logic of the suggestion that an over accumulation of gold would raise our level of prices. The history of world prices and gold production seemed to give ample support to the suggestion. Nearly everyone was agreed, for example, that the upward trend in world prices from 1896 to 1914 was due to the steady increase in the world's output of gold. As gold became more and more abundant throughout the world, its purchasing power declined—or, to put it another way, the level of prices rose with the natural result that a given quantity of gold would purchase fewer things.

> ## Finding Ways
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> *"THERE must be increased consumer buying power if business is to be stimulated, and cheap money is at present contributing to this end. Its effects may be seen in the wave of installment buying now sweeping the country. It is astonishing to note from day to day the number of business concerns that are featuring installment purchases, and to learn the number of people who are buying on the installment plan. It all goes to show that when money is cheap ways will be found for utilizing it to facilitate and stimulate consumer buying, just as it will be used by traders and manufacturers to expand their operations."*
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One does not have to go far afield to find that the same principle applies equally well to the valuation of products other than gold. Every wheat grower knows, though he may not see any analogy between gold and wheat, that a substantial increase in the production of wheat will lower the price of wheat and reduce the amount of other things that a bushel of wheat will buy. In exactly the same way, a substantial increase in gold production or in gold supplies will reduce the amount of other things that a bushel of gold will buy. A reduction in the purchasing power of any unit of gold, such as a dollar (23.22 grains of pure gold) can come about only through a rise in the level of prices.

THE actual steps in the process by which our gold accumulation was expected to bring about inflation may be set down briefly as follows: It was anticipated that the gold which was sent to us would find its way ultimately to the vaults of our banks where it would be used chiefly for reserve purposes. Since the addition of every $100 in gold to the banking reserves of the country will support additional bank credit of several times that amount, it was assumed that the flood of gold coming to us would quickly create a superabundance of idle funds, the effect of which would be to reduce the level of money rates, stimulate business activity, and raise the level of prices. Just as high money rates are generally associated with retrenchment in business, so it was natural to assume that low money rates would provide business with a fillip that would lead to expansion and end in price inflation.

After four years of anxious waiting, during which time our stock of gold has been far in excess of our business needs, the concensus of opinion seems to be that we have avoided inflation. Hurried explanations have been forthcoming from European forecasters to account for the failure of their prophecies, while some American economists—most of whom felt certain that inflation would occur—have been so impressed with the way our centralized credit machinery has functioned in the control of inflationary tendencies that they have pronounced it the "marvel of this age."

It is now possible to single out and appraise some of the forces which have so successfully stood in the way of the promised inflation. First and foremost among these forces should be mentioned the credit policies of the Federal Reserve Banks. It is a familiar matter of history that when gold began to arrive from abroad, the member banks of the Federal Reserve System were heavily indebted to the Reserve Banks. Since the member banks had no use for gold in their own vaults (being required to maintain their reserves in the vaults of the Reserve Banks) it was natural that they should send all gold received from abroad to the central banks and there use it for the purpose of paying off their borrowings. Generally speaking, this was the course that the member banks followed as it enabled them to regain some of the independence of action they had lost during the credit shortage of 1920-21.

If They Wanted To

MEANWHILE, the Federal Reserve Banks could have used their increased gold reserves as a basis for credit expansion if they had wanted to do so. They could have lowered their rediscount rates, as the reserve ratio increased, and put their excess gold to profitable use; or, they could have employed more of their funds in open-market purchases. But they did not follow this course. They completely broke away from the use of the reserve ratio as a guide to credit policy, feeling, no doubt, that it would be dangerous to let down the bars to credit expansion. A policy of gold conservation became the order of the day even though we had far more gold than we knew what to do with.

The results of this policy eventually made themselves apparent. The maintenance of higher money rates than the size of our gold reserves warranted only served to attract more gold. As gold continued to flow in from abroad and as member banks continued to pay off their borrowings, the earning assets of the Reserve Banks rapidly declined. By the spring of 1924 the increase in gold reserves had so reduced the earning assets of the Reserve Banks that they were no longer earning their expenses and dividend requirements. With a view to correcting this situation, drastic cuts were made in rediscount rates, while more and more funds were released for the purchase of bills and government securities in the open market. Under the avalanche of new funds seeking employment, money rates became extremely low and, what is well worth noting, the influx of gold soon came to an end.

It now seems clear, in one respect at least, why the promised inflation did not materialize. One of the main assumptions on which the inflation prediction rested was that excess gold would quickly lead to a condition of low money rates. But this assumption overlooked the possibility that the Reserve Bank authorities might exercise arbitrary control over credit conditions and temporarily delay the transition to lower rates. The fear of inflation prompted the Reserve Banks to follow this course and to conserve their excess gold, but in the end the policy of gold conservation broke down under its own weight, completely demoralizing money rates in the summer of 1924.

Another Factor Overlooked

ANOTHER factor which the inflation prophets overlooked was the lack of balance in our industrial organization. Industry generally was hard hit by the price collapse of 1920 but not all industries were affected alike. Those which had overexpanded during the war years were the ones that faced the greatest difficulties. In the business revival of 1922 it was noticeable that such industries as fertilizer, leather, rubber, and textiles continued to suffer from depression while the building trades and the industries supplying building materials appeared to be in a healthy, prosperous condition. Some of these inequalities have persisted to the present time permitting depression in certain parts of the industrial organization to put a check on the prosperity of the whole. An unbalanced state in industry is not the kind of soil in which inflation can flourish.

The farmers' difficulties were probably greater than those of any other class. Farmers had borrowed heavily when prices were high in order to expand their output. When the prices of their products collapsed, they were left burdened with debt, in an overexpanded condition, and with greatly reduced purchasing power. The cotton farmers recovered more quickly than the others owing to the rise in the price of cotton through 1922 and 1923. But the grain and live stock farmers continued to get poor remuneration for their efforts until the middle of 1924. All through this period the grain and live stock growers were handicapped on the one hand by low incomes and heavy debts, and, on the other hand, by the fact that they had to pay high prices for the high-cost labor products of the cities. Between the farm and factory there was complete lack of balance—there was greater inequality than existed between any two industries.

If the Federal Reserve authorities had seen fit to put their excess gold to work immediately on its arrival and had allowed money rates to fall, it is impossible to see how inflation could have occurred during a period when the buying power of such a large class was so materially reduced.

Size of Industrial Plant

A THIRD factor which was left out of the inflationists' reckoning was the size of our industrial plant. Under the stimulus of war-time demands, industry, no less than agriculture, had expanded far beyond our peace-time needs. We had on hand a large excess of productive equipment which could be put to work on short notice whenever consumption demands made increased output necessary. A sudden increase in consumers' demand could be quickly satisfied. Mass production methods, prompt deliveries, and excess productive capacity made runaway markets impossible.

It became very clear in the early months of 1923, 1924, and again in 1925 that sufficient buying power did not exist to keep our industries going at full speed. Long before they had reached the peak of their capacity in these years, production exceeded consumptive requirements, with the result that business generally had to slacken its pace and wait for consumption to catch up with production.

If the memory of the 1920 deflation instilled into business men the desire to be cautious, the size of our industrial plant together with prompt transportation service made it possible for them to follow a cautious policy. Common sense dictated that with idle plant available for immediate use there was no likelihood of runaway markets. It also dictated that the consistent policy to be followed, under these conditions, was one of hand-to-mouth buying and the avoidance so far as possible of future commitments. There was nothing else for business to do but to mark time and wait for consumptive buying power to grow up to the country's productive capacity.

All of this seems simple now in retrospect, but what bearing does it have on the future? Will we continue to avoid inflation, or must we go on living in dread of the prophecies which have not yet been fulfilled?

It is plain that some of the factors which stood in the way of inflation up to 1924 are no longer to be reckoned with. For one thing, money rates are low. The Reserve Banks were stripped of their power to hold up money rates eighteen months ago when their gold conservation policy automatically broke down, and there is nothing to indicate that they will regain this power in the immediate future. They can continue to conserve what gold they have, keeping just enough of their funds invested to earn their expenses and dividends. They can also advance rediscount rates at their pleasure, that is, whenever they feel that such action would serve to check inflationary tendencies. But they are also aware of the dangers involved. The chances are strong that the maintenance of higher rates through arbitrary control would again bring to us a flood of foreign gold which member banks could use to pay off their borrowings. With the volume of their rediscounts declining, the Reserve Banks would find it necessary to invest a corresponding amount of their own funds in bills and government securities in order to earn their expenses and dividends. It would accomplish nothing, so far as the control of market rates is concerned, to raise the cost of rediscounting, reduce the volume of member bank borrowing, and then employ the funds released in this manner in open market operations.

Federal Reserve Banks' Thoroughly Sound Position

THE Federal Reserve Banks are no longer in a strong position to dominate market rates, and it may be many years before they

again have the commanding position they had in 1920. Their financial condition, however, is thoroughly sound, and it will remain sound so long as they follow their present policy of trying to earn their expenses and dividends. If they should depart from this policy, as some have advocated, and dissipate their earning assets in an attempt to bolster up market rates, they would again bring to us a flood of foreign gold and make matters worse than they are already.

With regard to the situation in industry, there is now a better balance than at any time since 1920. A few industries are still in a depressed condition, but they are steadily showing signs of improvement. Some of the industries which were in the doldrums two years ago now seem to be fully recovered. There remains, however, the significant fact that industry still has a large excess of productive capacity which cannot be utilized until consumer buying power has substantially increased.

The greatest change of all has taken place in the relation between farm and factory. The rise in the prices of farm products, particularly during the past year, has put the purchasing power of the farmers' product within striking distance of its pre-war parity. According to data prepared by the United States Bureau of Agricultural Economics, the relative purchasing power of the farmer's product at wholesale for each of the years 1920 to 1925 compares with pre-war years as follows:

Year	Average Purchasing Power of Farmer's Product 1910-14 = 100
1920	85
1921	69
1922	74
1923	79
1924	83
1925 (July)	91

The above figures show very clearly the extent to which the farmer's position has improved. They do not, of course, offer the slightest suggestion that the farmer will venture forth on a spending orgy, either this year or the next. He still has debts that must be liquidated. Moreover, it might be many years before his buying power returned to the level of pre-war days when farm prosperity was relatively greater than that of industry. It is noteworthy, however, that the steady improvement in the farmer's position is gradually removing one of the factors which has stood in the way of inflation.

Are These Things Evidences of Inflation?

THERE are some observers who point to the present level of security prices, the volume of bank loans, the record of new building, the increase in installment buying, the volume of new security flotations, the size of corporate earnings, and the tendency toward rising prices as evidence that we are already inflated. Some of these factors strongly suggest inflation. All are danger signals according to the standards of old. All are the result directly or indirectly of the late influx of gold and the cheap credit which resulted from our gold accumulation.

We have always known that cheap money would raise security prices, increase the volume of bank loans, and somehow or other stimulate business. But we have never been able to see so clearly, as we now can, the connection between cheap money and consumer buying power. Heretofore it has been assumed that cheap money would stimulate business activity because it would enable business men to buy and carry larger stocks of goods and extend their plants, etc. The idea seemed to be that the greater buying power of trade and industry was the force which made for increased activity.

We can now see the inadequacy of this view. There must be increased consumer buying power if business is to be stimulated, and cheap money is at present contributing to this end. Its effects may be seen in the wave of installment buying now sweeping the country. It is astonishing to note from day to day the number of business concerns that are featuring installment purchases, and to learn of the number of people who are buying on the installment plan. It all goes to show that when money is cheap ways will be found for utilizing it to facilitate and stimulate consumer buying, just as it will be used by traders and manufacturers to expand their operations.

It is difficult to escape the conclusion that we are destined to have inflation in some form or other. Cheap money, a better industrial balance, and increased consumer buying must eventually bring this about, although time will be required for the process to work itself out. Consumer buying power is not yet large enough to cause a runaway market, and it is not likely to become so until we have grown up to our present productive capacity. There is, therefore, no reason to believe that on the next upswing of prices we shall have our inflation and be done with it. We can take our medicine just as effectively if we drift along, as we have been drifting, with recurrent ups and downs in business, but with the trend of costs and prices toward higher levels. Whether we have our inflation in the form of a "flare-up" in prices or in the form of a general upward trend, we shall probably not recognize it as inflation until it is all over.

Foreign Credit as a Preventive of Inflation

ACCORDING to a contrary view, there is no danger of an inflation in prices "because the Federal Reserve Banks will not permit it"! According to still another view, we will extend so much credit to foreign countries that we will automatically lose our excess gold and thereby escape the danger of higher prices.

The latter view overlooks the commonplace principle that the more we lend abroad, the more we must receive back in the form of interest. And by what legerdemain could we get the interest and other payments due us unless our prices rose high enough to permit foreign goods to come in over our tariff wall? Failing to get our prices high enough to permit the entry of goods, we should have to take gold—we should repeat our late experiences with gold imports. Obviously, it would accomplish nothing, so far as the problem of gold inflation is concerned, to buy foreign securities in such volume that we get rid of our excess gold, only to have the gold return to annoy us.

One of the unfortunate features of our dilemma is that the Federal Reserve System will be held to account for the ills of inflation, in whatever form we experience it, just as the System has been held responsible, and unjustly criticized, for the low money rates of the past eighteen months. The truth of the matter is that our central banking system is not the cause of our basic troubles. The Reserve Banks did not determine our policy of insisting on the payment of war debts, nor the policy of refusing to our debtors the right to pay us in goods. All the Reserve Banks can do is to play the game according to the rules which others have made. While they may be able to use their influence, at times, to check inflationary tendencies (the better if they do not try it too often), they cannot predetermine the level of prices. The fundamental fact seems to be that we have "asked" for a higher level of prices, and the Federal Reserve System will be powerless to keep us from getting it.

In "Little Cabinet"

Assistant Secretary of War Hanford MacNider

THE "little Cabinet" at Washington has another banker as a member. Hanford MacNider, vice president of the First National Bank of Mason City, Iowa, has assumed the office of Assistant Secretary of War. He was formerly national commander of the American Legion, and served with distinction in the American Expeditionary force in France.

Upon graduating from Harvard in 1911, Mr. MacNider decided to make banking his career. He served as bookkeeper, teller and assistant cashier before the war and, after returning home, reentered the bank as a vice president.

The coming of Mr. MacNider into the "little Cabinet" marked the retirement of another banker—Secretary of War John W. Weeks—from the big Cabinet.

Bank Loans to Finance the Installment Buyer

By BRUCE DAVENPORT

How the Louisville National Bank Uses the Trade Acceptance to Enable a Department Store to Sell Merchandise on a 25 or 50 Weeks Payment Plan. Makes from 16 to 20 per cent on Acceptances. Store Gets Money for 2 per cent Plan Is New.

BUYING on the installment plan has become so widespread in the United States that the volume of business financed on this basis now runs into several billion dollars annually. Hardly a week passes without some new adaptation of the deferred credit plan coming to light. Now it is the sale of merchandise in every department of the city department stores, aided by bank loans to the buyers.

The "dollar-down" scheme is not of recent origin. It has long been a part of the credit system. The automobile popularized this method of selling, gave to it the sanction of general acceptability and the halo of respectability and paved the way for its extension into other fields. Indeed, the sale of consumption goods through this medium of financing has reached such bounds, variously estimated at from three billions of credit outstanding, that seasoned and conservative bankers point to its proportions as the one dark cloud on the otherwise clear horizon of national prosperity.

Popularized by the Automobile

WITH the sale of the popular priced automobile on the deferred payment basis, a class of paper was created that the banks could not handle. To meet the need for this type of financing, there sprung into being hundreds of finance companies and the big automobile manufacturers set up acceptance corporations. The relations of the buyers were with these companies rather than with the banks, although, in some cases, banks discounted the notes of the automobile purchasers and permitted them to reduce the principal from month to month. However, the bulk of financing the automobile sales was handled by the finance companies.

With the broadening of the practice of installment buying, the finance companies have been called on to aid in the distribution of the radio, household electrical equipment and other commodities. More and more, it is becoming possible for purchasers to buy almost any article or commodity on time, the final payment to be made within several months, a year or an even longer period. It is true, of course, that the banks have had a part ultimately in the financing of these sales, but the participation has been indirect by making it possible for the selling companies to extend the credit through the discounting of notes, trade acceptances and granting lines of credit. They have bought the collateral trust notes of manufacturers and finance companies.

The popularity of the so-called "dollar-down" plan, and the relatively small losses sustained by those who have sold commodities on the deferred payment plan, have caused merchants, who formerly frowned on the system, to embrace it as a means of enlarging the volume of their sales. Recently one of the largest department stores in Chicago announced that it would sell suits, overcoats, millinery and other wearing apparel to the average buyer, giving the buyer several months time within which to pay for it. In Louisville, one of the principal stores advertised that purchasers might have from twenty-five to fifty weeks to pay for merchandise bought in every department at "cash prices," announcing that this service was made possible by the store borrowing the money for the balance due from a large national bank. There have been indications that this plan of linking the department store sales with bank loans arranged through the store, will meet with more general adoption in various cities throughout the country.

Not a Branch Bank

THE Louisville store advertises the arrangement as "the Louisville National Bank plan."

The link is dramatized in an effective way. The weekly payments are made at a window in the department store that looks like a teller's cage. It gives the illusion of a direct dealing with the bank; enhanced somewhat by the display of a sign on the window: "Representative of the Louisville National Bank."

With the branch banking issue so impressed on the public consciousness, it is not surprising that some of the newspapers observed, in error, that an innovation in banking had occurred through the opening of "a branch bank in a department store." However, it is anticipated that the weekly payments will be more prompt and regular because the average person takes an obligation to a bank more seriously than he does a bill due a commercial firm.

The Plan's Strong Points

THE arrangement has been in effect only since October 1 and has not been given the telling test of time. However, Richard Bean, president of the Louisville National Bank, sees decided advantages in it—whether viewed from the standpoint of the consumer, the department store or the bank.

"The trade acceptance is the vital part of the arrangement," Mr. Bean said. "The stores sells goods to its customers on either a twenty-five or fifty-weeks payment plan, the period depending upon the class of merchandise sold. Dry goods, wearing apparel, millinery and merchandise of this kind are sold on a twenty-five weeks payment plan. Furniture, household furnishings, washing machines and other goods, which can be repossessed under chattel mortgage, are sold on a fifty-weeks payment plan. The store takes a trade acceptance, attached to a mortgage, from the customer and endorses this trade acceptance to the bank. In acquiring the goods, the purchaser makes a certain down payment and gives the trade acceptance plus 6 per cent interest to the store. Our bank discounts the trade acceptance at 6 per cent.

"On the first of each month, the bank renders the store a statement of the aggregate amount of the trade acceptances, on which the store pays the bank 2 per cent. It will be seen that the bank gets 6 per cent interest on the trade acceptances and 2 per cent, in addition, from the store, making a total of 8 per cent. The trade acceptances are then paid weekly to the bank by the customers."

While a sign "Representative of the Louisville National Bank" is displayed over the window of the office where the customer makes his payments, the bank has no branch in the store whatever. The store appoints a clerk to receive the weekly payments on the trade acceptances. Therefore, the bank does not have to obtain the sanction of the Comptroller of Currency at Washington to enter upon such an arrangement for the question of "an additional office," as the teller window branches authorized by the comptroller are commonly called, do not enter into the matter at all.

Profiting from Psychology

IN setting up this office, the store desires to capitalize the psychology of the average customer that makes him meet his bank obligations without fail. Then, too, it prefers to have the payments made at the store rather than at the bank, because it wants the customers to come into the store as often as possible. The sight of attractively displayed merchandise, the opportunity to buy

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Why Section 9 is Necessary to the National Bank Bill

By L. T. MCFADDEN
Chairman, Committee on Banking and Currency, House of Representatives

Congress Is Not Invading Rights of States In Declaring That State Banks Shall Not Be Permitted to Enter Federal Reserve System Unless They Relinquish All Branches Beyond City Limits. Simply Means Preserving Soundness of the Reserve System.

SECTION 9 of the National Bank Bill undertakes to prevent the further spread of state-wide branch banking within the Federal Reserve System. It is the only section of the bill over which there is any controversy. It is violently opposed by a small, but influential, group of state member banks, which are now engaged in state-wide branch banking and which desire to continue the development of their branch systems in the state in which they are located. In fact, the banks which oppose this section of the bill are located in the two cities of San Francisco and Los Angeles, with the exception of one or two Cleveland state member banks, which desire to continue to establish branches in the suburbs of Cleveland.

Outside of this small group of dissenting banks, the banking opinion throughout the United States is practically unanimous in support of this proposition. Even in the state of California, where state-wide branch banking is permitted under the state law, an overwhelming majority of the banks are opposed to state-wide branch banking within the Federal Reserve System.

Text of Section 9

THE text of Section 9 is as follows:

"Sec. 9. That the first paragraph of Section 9 of the Federal Reserve Act be amended by adding at the end thereof two provisions and a new paragraph to read as follows:

"Provided, that on and after the approval of this Act the board shall not permit any such applying bank to become a stockholder of such Federal Reserve Bank except upon condition that such applying bank relinquish any branches which it may have in operation beyond the corporate limits of the municipality in which the parent bank is located, and it shall be unlawful for any such applying bank in any state which does not by law or regulation, at the time of the approval of this Act, permit state banks or trust companies created by or existing under the laws of such state, to have branches within the limits of municipalities in such state, to become such a stockholder of such Federal Reserve Bank except upon condition that such applying bank relinquish any branches which it may have established subsequent to the approval of this Act: Provided further, That it shall be unlawful for any member bank after the approval of this Act to establish a branch beyond the corporate limits of the municipality in which such bank is located, and it shall be unlawful for any such member bank to maintain in operation any branch within the corporate limits of such municipality where the population by the last decennial census is less than 25,000 and not more than one such branch where such population is not less than 25,000 and not more than 50,000 and not more than two such branches where such population is not less than 50,000 and not more than 100,000, but these restrictions as to number shall not be construed to require the relinquishment of any branches acquired prior to the approval of this Act: And provided further, That the establishment of any branch by a member bank shall not require the approval of the Federal Reserve Board: And provided further, That it shall be unlawful for any such member bank to establish a branch within the limits of the municipality where such bank is located, in any state which does not by law or regulation, at the time of the approval of this Act, permit state banks or trust companies created by or existing under the laws of such state to have branches within the limits of such municipalities in such state.

"The term 'branch or branches' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any state or territory of the United States or in the District of Columbia at which deposits are received or checks cashed or money loaned, but shall not include any branch established in a foreign country or dependency or insular possession of the United States."

The Section's Practical Effect

THE practical effect of this section would be to confine all branch banking by state member banks to cities, having a population above 100,000 in those states which permitted branch banking at the time the bill became a law, and to prohibit it absolutely elsewhere. Section 8 of the bill would put the same restrictions upon the national banks. The combined effect of Sections 8 and 9, therefore, would be to prevent any form of branch banking within the Federal Reserve System by either state or national banks in what is now non-branch banking territory (even though these states might subsequently permit state banks to engage in branch banking) and to restrict within the Federal Reserve System all branch banking in what is now branch banking territory to the large cities. The permission for one home city branch in cities from 25,000 to 50,000 population and two home city branches in cities from 50,000 to 100,000 population applies also only to existing branch banking territory and is in the nature of a further restriction upon branch banking. The rural communities are absolutely protected by these provisions from the spread of branch banking.

The heart of Section 9 is the clause which says to a state member bank, "You shall not establish or acquire any more branches outside of the city in which you are located," and to the non-member state banks, "You shall not be permitted to enter the Federal Reserve System unless you relinquish all branches which you have beyond the limits of the city in which you are located."

The opponents of Section 9 sincerely believe that branch banking is not only sound and efficient as a system of banking but marks a step of progress. They would like to see developed in the United States a system of branch banks similar to the Canadian system and similar to that in vogue in all European countries. They would look with philosophical calm upon the gradual and ultimate disappearance of the small unit banks, both state and national, from the field of action. The logic of their position would lead them not only into state-wide branch banking but into nation-wide branch banking and in this connection it is well to bear in mind that Congress has the power to permit the establishment of nation-wide branch banking systems in this country.

The advocates of state-wide branch banking cannot stop at that. If branch banking were sound, there is no reason why it should be limited to the artificial boundaries of a single state. When the Federal Reserve System was established the state lines were ignored as a means of determining the limits of banking operations. The business of banking is determined by commercial and not political considerations. A particular branch banking system with the head office say, in San Francisco or Los Angeles, would have the same economic urge to establish branches in the territory commercially tributary to California as it would in California itself. Once you admit the efficacy and wisdom of branch banking, no sound reason can be advanced for confining it to a single state. But it is said that a state legislature has no authority beyond its boundaries. That is true but it does not offer an insurmountable obstacle. The spread of branch banking could be accomplished both by comity between the states and by the expression of a national policy by Congress.

Useless To Argue

TO a person, who honestly advocates state-wide or nation-wide branch banking, it is useless to argue about the merits of Section 9. If he cannot be converted to the idea that branch banking is undesirable and unadapted to banking conditions in the United States, he can only see in Section 9 an unwise national policy. There is a fundamental difference between his position and the position of the proponents of this section of the bill and it need not be expected that he will listen to the reasons why Section 9 is necessary. However, fortunately for the friends of the bill, the true advocates of branch banking are so few in number as not to cause any great concern.

Section 9 Not an Invasion of State Rights

THERE is, however, another group opposed to Section 9, who are also opposed to state-wide branch banking. They take the ground that although state-wide branch banking is wrong in principle and the national banks should not be permitted to participate in it, the Federal government has no moral right to use the Federal Reserve System as a club to coerce the state banks in the exercise of their charter powers which they derive from the state legislatures. Some members of this group have gone so far as to take the position that Section 9 is a violent invasion of the rights of the states, thus raising an issue which would put Section 9 upon the unpopular side of a current question having nothing to do with branch banking. To this group the proponents of Section 9 can make arguments that ought to appear conclusive to any reasonable man.

What rights are invaded by this proposed legislation? Does it attempt to deny to any state legislature the right or power to give such charter powers as it may see fit to the state banks? Does it put any restrictions upon the exercise of the executive or administrative authority of any state official? The answer is apparent from a simple reading of the section. The forty-eight independent state banking systems remain as now—solely under the jurisdiction of the state authorities.

What then is the complaint? It is that when a state bank becomes a member of the Federal Reserve System it should be permitted to exercise within that System all of its charter powers which it has derived from its state legislature; that Congress ought not to impose upon such state member banks, as a condition of membership in the Federal Reserve System, any restrictions which would interfere with the exercise of these charter powers! It is contended that many of the large state banks came into the System at the urgent solicitation of the Federal government and were given assurance from executive officials that membership therein would not lead to the relinquishment of any of their charter powers and that therefore Congress has not the moral right, even though it has the legal right, to impose any further conditions upon such state member banks. Such a contention is based upon an untenable theory of the Federal Reserve System.

What is the fundamental nature of the Federal Reserve System? The Federal Reserve System was created under the sovereign authority of the government of the United States. It is a Federal instrumentality which gave voice to a national financial policy transcending the financial policies of any particular state. The right to designate the membership in the Federal Reserve System rests solely in Congress and Congress saw fit to use its own creation—the national banking system—over which it has sole jurisdiction, as a basis upon which to build the Federal Reserve System and, in its wisdom, it saw fit to compel every national bank to become Federal Reserve members. The basic and unconditional members, therefore, of the Federal Reserve System are the national banks. It was not necessary for Congress to prescribe any conditions upon the Federal Reserve membership of the national banks for the simple reason that all national banks exercise only such powers as are given them by Congress. Having thus complete control over the banking powers of national banks, Congress may at all times adapt them to the needs of the Federal Reserve System.

Position of State Banks

THE state member banks are in a very different position. They exercise their charter powers by virtue of grants from the state legislature. Congress has no authority to modify or change in any way these charter powers. Now when the Federal Reserve System was created, Congress never intended that every form of banking carried on under state laws should automatically be entitled to the previleges of that system. In the Federal Reserve Act, however, Congress extended to the state banks an invitation to become members of the Federal Reserve System under certain conditions set up by the Act itself and further imposed upon the Federal Reserve Board the duty, in connection with admitting state banks as members, to consider "whether or not the charter powers exercised are consistent with the purposes of this Act." Pursuant to this duty, the Board has set up certain standards which must be conformed to before a state bank can become a member of the Federal Reserve System.

Can any one with reason maintain that such conditions as Congress may see fit to impose upon the state bank members of the Federal Reserve System constitute a violation of the rights of states? Can the proposition be seriously questioned that Congress has no right to make such conditions? Certainly not. It is conceded that Congress has the legal right to make any condition it may see fit for the voluntary entrance by the state banks into the Federal Reserve System. Congress cannot compel them to come in. It can only invite them. Furthermore, it will be conceded that Congress has also the moral right to make any condition upon the membership of state banks which, in the opinion of Congress, is necessary to preserve proper banking standards within the Federal Reserve System. Congress can force such conditions upon the national banks through its power to dictate their charter powers.

This is exactly what the House of Representatives did when it passed the National Bank Bill last winter. Section 8 changed the charter powers of the national banks. Section 9 is simply a new condition of membership upon the state member banks. Both sections enunciate the same policy and set up within the Federal Reserve System the same standard of banking. They are based upon the assumption that state-wide branch banking is unsound and puts our whole banking system in danger. To those who believe as I do, state-wide branch banking will eventually lead to monopolistic control over the credit facilities of an entire state and will in the course of time run out of business all of the rural unit banks, both state and national. When a branch banking system becomes fully developed in any given state, the business and industrial activities outside of the large cities will be at the mercy of a few large city banks. This is what former Comptroller Dawes called "absentee banking."

Strength of Independent Banking

THE economic development of the United States has been a marvel to the entire world. This great progressive development in all lines of business endeavor and civic improvement has been financed by the independent local unit banks. Credit facilities have been extended in each particular community by directors of banks living in that community and participating in its affairs. This has been a natural growth under a system of banking which is peculiar to the United States but certainly under a system which has shown a vitality and adaptability unparalleled in the financial history of any other country.

It is needless for me to go further into the question of why state-wide branch banking is undesirable because I am addressing these words primarily to those who are in agreement with me in this position. The real question, which I am interested in clearing up, is that of state-wide branch banking within the Federal Reserve System. The Banking and Currency Committee of the House, after a most careful consideration and after public hearings at which both the branch bankers and the anti-branch bankers were heard, unanimously agreed that it would be an unwise national policy to permit the national banks to engage in state-wide branch banking in any state, and that, therefore, in order to preserve the equilibrium between the national banks and state banks within the Federal Reserve System, and to preserve that system from the possible domination by a few powerful branch banking institutions, it was necessary to impose a new condition of membership, the prohibition of the further spread of branch banking in that system. The language of Section 9 embodies this policy.

The only real issue here involved is the conflict between national and state policy with reference to banking. A few states have expressed a policy favorable to state-wide branch banking. Section 9 expresses a national policy in direct opposition. The national policy should prevail. The state banks in such states will have to choose between branch banking and the Federal Reserve System. The state banks are free to remain out of the Federal Reserve System and exercise whatever charter powers the state legislature may give them. Even after they become members of the system and meet the conditions required by the Federal government for membership they may upon thirty days' notice withdraw whenever they see fit. They are only voluntary members of the System but the important fact must not be lost sight of that, in becoming members of the Federal Reserve System, the state banks receive a positive and direct benefit. The privilege of being a member of the Federal Reserve

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Florida Bankers—Minding Their Business and Going Along

By JAMES H. COLLINS

Miami Clearing House Association Figures Suggestive of the Rapid Growth. No Miami Bank Will Be Adequately Housed Until New Building Programs Are Completed. "Loans and Discounts" Small Because Banks Are Keeping Out of Speculation.

SOME years ago, a stockbreeder friend of mine, visiting Florida, was so amazed by the native razorback hog that he tried to ship an uncouth specimen to his Corn Belt swine show—unfortunately, the animal died in transit, probably of cold or a broken heart.

Now, it isn't a happy comparison at all—but by way of showing other sections of the United States what has happened to Florida banking, I would like to pick up a Miami financial institution bodily, during business hours, and set it down anywhere in the United States outside the state of Florida.

It would be a real sight for bankers and business men—the lines of depositors before tellers' windows, the knots of visitors waiting to consult every officer, the number of employees it is possible to crowd into a given working space when necessary.

A curious sight, and also a dangerous one. For a Miami bank during business hours more nearly resembles a bank in the excitement of a run than anything else I can think of in the world of finance—unless it be the big transfer agencies in New York after a three-million-share day on the Exchange. This is true, to a lesser degree, of banks in West Palm Beach, another great real estate trading center. In other sections of Florida banking has been forced to expand, and bankers sincerely believe they have had a phenomenal increase of deposits, and that they are busy to the point of distraction. But the banks of Miami had, by June 30, 1925, just about half the total increase of resources for the whole state of Florida the past twelvemonth. Roughly, Florida banks showed a gain of $183,000,000, and Miami banks $93,000,000. Since then, there has been a tremendous further gain, and the coming winter is likely to see more records broken.

Read this statistical story in the figures of the Miami Clearing House Association, which started January 1, 1924, with clearings for that month of $15,501,644:

Clearings entire year 1924..........	$212,353,780
Clearings January 1 to September 30, 1924	141,736,674
January 1 to September 30, 1925....	746,170,856
Month's clearings September, 1924..	14,468,896
Month's clearings September, 1925..	124,464,044
Day's clearings September 30, 1924..	587,303
Day's clearings September 30, 1925..	4,204,510

The Billion Dollar Mark

MIAMI is plainly headed for the billion-dollar mark this year, and with a present population exclusive of winter visitors probably in excess of 150,000 (some estimate 250,000 with recent enlargement of city boundaries) has clearings comparable with those of New Orleans, Cincinnati and Minneapolis—they ought to run around half the 1924 figures of these much larger cities.

Here is the picture in the deposit figures of individual banks:

Clearing House Banks	October 10, 1924	September 28, 1925
Bank of Bay Biscayne..	$11,780,022	$57,713,440
First National Bank....	11,825,339	63,089,687
First Trust and Savings Bank	2,016,792	4,029,813
Miami Bank and Trust Company	5,282,358	31,994,662
Biscayne Trust Company	504,145	2,305,582
Commercial Bank and Trust Company	1,008,234	14,570,490
Tamiami Banking Company	*	1,477,230
	$32,416,892	$175,181,088
Non-Clearing House Banks		
Bank of Buena Vista...	$239,863	$2,226,412
Bank of Cocoanut Grove	298,074	1,800,977
Bank of Little River....	192,653	1,634,881
Bank of Allapatah......	*	485,674
Bank of Coral Gables..	*	2,224,149
	$730,590	$8,372,095

*Not in existence.

The non-clearing house institutions are, chiefly, suburban banks. In the whole Miami district there has been a gain in deposits, during nine months of 1925, of approximately 450 per cent.

For the whole state of Florida, I have only the Comptroller's statement of June 30, which shows total resources of $362,000,000 for 1925 against $179,000,000 the previous year. Of this, individual deposits were $93,000,000 in 1924, and $228,000,000 in 1925, while savings deposits were $10,000,000 in 1924, and $20,000,000 in 1925. Loans and discounts were $106,000,000 in 1924, and $193,000,000 in 1925. The number of banks showed no marked increase in institutions, being as follows:

	1924	1925
State banks—commercial.....	197	200
Trust companies............	44	56
Savings banks..............	2	3
Special charter banks.......	2	2
	245	261

William R. McQuaid, president, the Barnett National Bank, Jacksonville, Fla., president, Florida Bankers Association

Later figures will, of course, show greater gains for the state, but in my opinion nothing comparable with the phenomenal growth of banking business in the Miami district. Landing in Miami by boat from New York in July, I have been in touch with that city several months, and also motored over the state, visiting representative sections. Everywhere, Florida communities were marvelling at the throngs of visitors present, greater numbers than had ever before been known in the height of the winter season. But to leave Miami or West Palm Beach and go elsewhere was, comparatively, to retire to a quiet village for a breathing spell. In one Florida city my host, born in the place, remarked in the principal drug store, "My, there are a lot of strangers in town—why, I don't know half a dozen people here, and I usually know everybody!" At that moment, in Miami, pedestrians were being arrested and fined for stopping to talk on the sidewalks in certain congested blocks.

Banks in Housing Enterprises

THE difficulties created by such expansion were many.

Outside money began pouring into Miami early last summer, at a time when business usually slackens in a community whose chief industry is "climate"—an industry, incidentally, that requires an enormous physical plant and investment. There is some dispute about the outside money, because Miamians maintain that it was an orderly movement of capital attracted to finance a much-needed building program, while others view it as money brought by newcomers who were eager to speculate in Florida real estate. However that may be, thousands of new bank depositors did materialize. The

very first step was opening a checking account. Pressure upon bank staffs was immediate, and officers met it, at the outset, by adding more employees.

But enough competent workers were not obtainable at first. Soon working space was at a premium, emergency quarters being rented, galleries built—no Miami bank will be adequately housed until new building programs now under way are completed. Miami itself became crowded, and it was soon difficult for employees to find places to live on their salaries—today the banks are in housing enterprises, providing dormitories and apartments for their folks.

Mechanical equipment was augmented as well, so that Miami stands among the half dozen largest cities in the country in sales.

The banks, moreover, discovered that certain comfortable courtesies peculiar to the South, such as permitting checking against savings accounts, were of questionable value. At least one Miami institution has abolished this without difficulty, and generally, the banks of this city are modifying such customs and methods to conform to "big town" banking.

"Have the Florida banks been able to meet the demand upon them for loans?" is a question often asked by bank men. Frankly, I do not know why, but the answer is, that the real estate "boom" has brought nothing unusual in the way of loans. Demand for loans—yes! That begins with the opening of the new account, the depositor asking to be permitted to check against money, represented by his own check, on a bank one to two weeks distant in collection time. It has been necessary to decline these "unconscious" loans, of course—they would have run into millions. Many an individual and business concern with credit at the Florida banks could use loans to finance real estate operations—but the Florida banks are not lending for such purposes.

"Loans and Discounts" Small

IN fact, the item "loans and discounts" in Miami bank statements is surprisingly small. Sound commercial loans are made, as usual, to business concerns—even to many of the sound real estate concerns which require capital for the necessities of doing business, instead of financing investments. Rather oddly, many business concerns have switched from other lines to real estate, often as a matter of necessity—as an example, a large produce shipper, foreseeing that there will be much smaller crops by reason of agricultural land being cut into lots, is active in real estate, and a conservative operator. Miami's building operations this year (1925) will run to at least $90,000,000, and have created a demand for construction loans and other financing incident to building.

Miami banks are large lenders of New York call money, and investors in commercial paper, bonds and other quickly convertible securities, for it is realized that the very nature of the growth in deposits requires that assets be kept liquid for emergencies. Nobody has any definite expectation of an emergency, but the new money is being kept liquid and ready, and Florida banking, so far as I have investigated it, seems to be of this conservative character. The prospect of a "crash" is often discussed in connection with the Florida excitement, even by Floridians. Some adjustment of land values there must be, eventually. Even if it took the form of a collapse of business in Florida, however, there would be no "crash" in the banks. John Smith may involve himself in real estate to the point of ruin, but the banks are scrupulously seeing to it that he does not involve them.

Bankers and Real Estate

IN Tampa, a friend of mine found what seemed a rising piece of land. He needed $800, and went to his bank, for the first time asking a loan.

"I don't know where your real estate is," said the bank president, cordially, "but you can have the money, because I know that your business, your home and your position in this town make you good for it. I'll lend you the money because I know you can't get away from Tampa."

Now, take a discount off that for friendly banter, and it is a fair statement of Florida banking policy in such circumstances.

"Escrow Department" is prominently placarded in Florida banks, and thousands of real estate deals are thrown into escrow, a convenience learned from California.

"You can buy a piece of property in five minutes," says a Miamian, "but it may take six weeks to sell, even after you find a customer. The fellow who's willing to buy may have his money tied up, or questions of title arise, or other delays occur."

This being so, whenever experienced traders find delays after their bargain is finished, they put property and money into escrow at a bank, the actual passing each way to be made by the bank when all difficulties have been cleared up. This service, rendered for reasonable fees, and giving legal and other protection, is more and more used, and will bear study by bankers wherever real estate activity develops.

Trust business is growing rapidly in Florida. There is a widespread belief that the state's laws exempting capital from income and inheritance taxes is bringing money in. In my opinion, the expansion of Florida is the biggest factor. Millions are being transferred to legally escape taxes, true, but they are nothing compared with the thousands, and even hundreds, brought by people of small means who are coming to settle and live—folks who may be originally drawn by the dream of a fortune, but who will stay to farm, earn wages or salary, or enter business.

How Long Will It Last?

THIS brings us to the question, "How long will the Florida boom last?

In Florida, at the moment, there is grave concern about "organized propaganda against Florida in the North." Banks and realty men in a good many cities have actually warned their fellow-citizens, in newspaper advertisements, against going to Florida, or investing in Florida land. As questionable promoters are offering questionable Florida land to people who have never seen Florida, and may never see what they buy, the warnings are often necessary—though perhaps more likely to stimulate interest than inspire caution, on the well known principle of the futility of saying "Don't."

Many Florida communities would be better today if no more people came for a time—they would have breathing spells to catch up with their housing and transportation needs. Land prices over the whole state have risen magically the past year, so that no hamlet or crossroads is without its "developments" and its enthusiastic realtors. Many of the prices are hopes rather than values, however, and it does not seem possible that even the great population of this country can build and occupy all the subdivisions that have been laid out within a period of years that will make prices real values.

Yet, Florida was here before the boom, and it was always growing to a degree that made the five-year appreciation of property on the outskirts of any of its communities a most profitable thing. Florida will be here even after a collapse, if there is one, and it will still be growing, because its attractions are real. Florida not only grows, but in decidedly faster ratio than the average American community, because it makes a strong appeal to the rest of the country, and has characteristics found nowhere else in the United States. Florida not only grows, but in favored regions like the lower East Coast, its growth creates rises in property values that approach the fairy story in wonder.

"In the past twenty years," said a Miami bank executive who has lived in that city since 1898, "I have been visited by hundreds of bankers from other parts of the country, and have shown them property that had risen, and was still rising, at hundreds, and sometimes thousands per cent in the five-year period. Admitting that such things might be, my banker friends have always concluded with, 'Well, Mr. R———, you know, I'm conservative.' In all that time I have been a banker myself, kept out of real estate personally, and yet seen values rise right under my nose, in many cases against my own judgment. After twenty-odd years of it, I have come to say, under my breath, 'No, you're not conservative, my friend—why don't you be honest with yourself, and call it stupidity?"

Banking Problems Met

MY own confidence in Florida's orderly growth, based on frequent visits the past dozen years, is such that I would willingly invest far more money than a poor scribe is ever likely to possess, in chosen property in the five-year line of growth, and wait unworried for my profit. This can be done in dozens of Florida communities, and both the appreciation in value and the rate of return would make bonds look like questionable investments. Present dealing in Florida, however, is not of that kind, but the quick turning over of property for quick profit. Yet even at the speculative prices, I believe, much of the property could be quietly bought and withdrawn for the five-year rise, and make the speculative profits look small. It has been quietly done in many Florida communities the past twenty years, and will be done during the coming twenty.

Wherefore, the question, "How long will it last?" is answered by the state's solid attractions and resources and growth. The

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Paper Money May Be Reduced In Size

By REUBEN A. LEWIS, JR.

Notes Approximately One-Third Smaller Than the Present Issues Would Result in Substantial Savings in Production. Treasury Officials Make Study of Whole Problem of Supplying More Economical Currency. Advantages Indicated in Change

THE Treasury has under serious consideration the reduction in the size of all the paper money.

Since the early days of the Civil War the dimensions of the currency—excepting the fractional issues—have not been changed. The changes in the designs appearing on the bills and notes have been without number and the style of the distinctive paper has been altered but the size has remained undisturbed.

Just now, however, a committee of twenty experts, working under the direction of Assistant Secretary of the Treasury Dewey, is studying ways and means to provide the people of the country with a better and more economically wrought supply of currency. Among the proposals under consideration is a plan to reduce the size of the paper money by approximately one-third, so that the dollar bill will be about one and one-fourth inches shorter and one-half inch narrower. The question of reducing the size of the currency is, however, only one angle of the study that the experts are making.

Making Money Costs Money

THE money-making business—in the most literal sense—has become a big industry among the Federal activities. It is costing the Treasury nearly eight million dollars annually to issue and retire the bills that are manufactured at the Bureau of Engraving and Printing at Washington. Providing the one dollar bills, alone, entails an expense of five million dollars. Furthermore, the clamor of the public for the notes of the $1 denomination shows no sign of abating. On the contrary, the banks report a growing demand for one dollar bills. During the last thirteen months, 40,000,000 dollar bills were added to the number in use so that there were 421,000,000 dollar bills outstanding on September 1.

The facilities that the government has for turning out paper money are not unlimited. The Bureau of Engraving and Printing has been so taxed during the post-war period to turn out a sufficiently large amount of paper money that it has been forced to put "green" and unaged dollar bills into circulation, knowing that their life would be short and costly to the government. Only during the past few months has the Treasury been able to make any headway in accumulating a reserve stock of paper money, when it has long been recognized that money ought to be seasoned before it is put into circulation and there ought to be a reserve stock, consisting of at least a month's supply.

To hold the demand for dollar bills within bounds, the Treasury tried—but in vain—to get the people to accept a substitute. It sought to revive the use of the silver dollar—but the public declined to carry the "cartwheels" in their pockets. When the silver dollars were put into circulation, they rolled right back into the banks. An effort was made to popularize the two-dollar bill, but the results of the campaign are as yet in doubt. The demand for the dollar bill is unmistakable—so the Treasury must shape its plans to meet it.

While the production of enough paper money to meet the commercial needs of the country and satisfy the demand for cleaner bills has been a vexing matter in the past, the question of output is not the primary motive that is spurring the Treasury on in its investigations. The object is to get a better, cheaper and improved paper currency. The attitude of the government officials, who have to deal with the various angles of the supply and retirement of the steel engraved bank notes, is that surely some improvements can be made with the greater perfection of the engraving art and the change in the spending habits of the people.

New Money?

HOW many of us have ever thought that there was anything wrong with the size of our paper money?

If the size should be slightly changed, how many of us would cling to the old or present size and try to reject the new.

Manufacturing money is like manufacturing any other thing of value calling for a high grade of skill, costly mechanical equipment and raw material which must not vary in quality, in that those charged with its manufacture are from time to time impelled to consider economies.

Just now government officials at Washington are considering the advisability of reducing the size of our paper money, thereby making a great annual saving.

But what a private manufacturer may do out of hand, if tests prove the course to be wise, is quite another story in the matter of money.

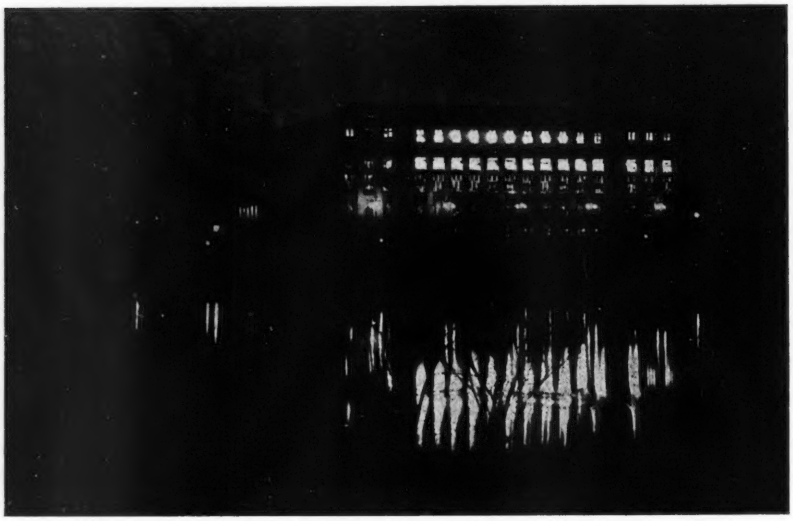
The many inter-related problems in the way of a change in the size of our paper money are described in the accompanying article.

Savings in Smaller Sizes

ECONOMY is the big idea behind the proposal to cut down the size of the paper money. If the bills are reduced one-third, it is obvious that the outlay for the special kind of distinctive paper will be about one-third less. This item, alone, might justify the step because the Treasury has been paying over $1,000,000 annually for the specially manufactured linen paper, with those little red and blue silk fibres, that is used in the making of our notes. There might be a slight saving in supplying the plates from which the engraved notes are printed and, of course, less ink would be used.

Whenever there is a change in the manufacture of anything, the price of progress includes the cost of scrapping or altering machinery. One of the important phases of the present study is considering just what the reduction in the size of the currency would do to the presses and the mechanical equipment that have been perfected in the Bureau of Engraving to turn out the notes. If the change should require the wholesale scrapping of the equipment, there would be scant chance of the government adopting it. However, those who are familiar with the mechanical side of producing the paper money now see no insuperable barriers to clear—but the experts have not made their report and no one is in a position to say just what the shift would involve.

Perhaps the most revolutionary change undertaken in the history of the Bureau of Engraving was made a short while ago when power presses were installed to replace the old hand presses. Under the present mechanical arrangement eight notes are printed by one impression of the power presses. If the plates were reduced one-third in size, it is probable that twelve, instead of eight bills, could be printed at one time. If this



Many times the Bureau of Engraving had to work day and night to meet the country's demand for paper money

could be done, it is obvious that the paper money could be produced more cheaply.

It is believed, too, that the smaller bill would have a longer life than the present dollar bill. In the Philippines, the peso note is never folded more than once. The dollar bill is generally folded several times and this practice more than the ordinary wear and tear causes it to become unfit for circulation. A small bill might go a long way toward changing the money handling habits of the Americans and, if this change could be wrought, it undoubtedly would add to the savings of the government.

There are possibilities of other economies also. Being smaller, the bills would occupy less vault space. When wrapped for shipment, they would weigh about one-third less and this would result in materially lower carrying charges. In addition there would be a material saving in transportation charges.

Not a New Proposal

WHILE a reduction in the size of the United States paper money would be a revolutionary step and would be felt by every inhabitant of the United States, there is nothing new in the proposal. Indeed, Secretary of the Treasury Franklin MacVeagh, who served during the Taft administration, approved a plan in 1912, calling for the reduction in the number of note designs from nineteen to nine and a reduction in the size of all notes from 7.28 inches by 3.04 inches to bills measuring 6 inches by 2.5 inches. Original dies were engraved and models of the nine denominations were formally approved. But before Secretary MacVeagh could put his plan into effect there was a change in Administration. Then came the establishment of the Federal Reserve System that introduced several new currency issues. After this major financial change came the world war. The Bureau of Engraving operated feverishly and went on a day-and-night schedule at times to put out the millions of Liberty bonds, produce enough currency to take care of trade transactions based on the rising level of prices and keep up with its various other sidelines, many of which are scarcely known to the general public. So the proposed changes were indefinitely postponed.

Secretary MacVeagh's administration dug rather deeply into the problem of currency manufacture. He was responsible for introducing the practice of laundering currency and reissuing it. He installed the first of the power presses in the Bureau of Engraving, replacing the picturesque, but obsolete, hand presses with the more modern equipment. He gave his approval to the suggested reduction in the size of the notes, after a committee, composed of the Treasurer of the United States, the Director of the Bureau of Engraving, the Chief of the Division of Loans and Currency and the Chief of the Secret Service, had made an intensive study of the matter and had urged this as a further step in the direction of Federal economy. It was estimated that a saving of $612,000 annually could be made.

The Secretary of the Treasury is clothed with authority to change the size of the paper money without referring the matter to Congress, so Secretary MacVeagh could have taken this action had he chosen to do so.

Philippine Money the Model

AT first blush, the proposal to cut down the size of the paper currency by one-third might give rise to the thought that such a small bill would be impractical, and inconvenient. It is not a rash or untried experiment. The peso certificates of the Philippines are just two-thirds as large as the United States dollar bill and have been in circulation since the days that the Philippines became an insular possession of this country. No complaint has been made against the Philippines' paper currency, which may serve as a model in size for the foster country, but instead it has been found to be of a most convenient size.

From the practical standpoint, it has been suggested that the smaller-sized notes could not be handled by tellers and cashiers as quickly. The Treasury conducted a number of actual tests to determine the relative ease of handling and established that any of the three most general counts could be made just as fast—even when the bills were cut in half for redemption purposes as is the practice when old currency is being mutilated and retired from circulation.

A comparison of the proposed smaller-sized currency with the paper money of other countries reveals that it is smaller than a great many notes used by some nations, but larger than the notes of others. It would be considerably larger than the new German rentenmark, for instance. France and Great Britain have no uniformity in the various denominations of their bank notes. The larger the denomination, as the general rule, the larger the size of the note. The British five-pound note impresses the average American as being a document rather than a piece of currency.

Two other objections have been raised in the past. It has been contended that a reduction in size would necessitate changes in cash drawers, money compartments and tills of banks and business houses; but the champions of the small-sized notes point out that this objection carries no weight, as all of the existing compartments readily will hold the new notes. It is admitted that it would be another story if the money was to be made larger. For a long time, it is pointed out, there will be in circulation two different sizes of money and it may be contended that this will be annoying and confusing. In some of the European countries, there are not only two different sizes of notes but actually a different size for each denomination. However, in event the Treasury should decide to introduce the smaller size, it doubtless would prepare a large stock of the new money so that it might be issued in such volume that not much time would elapse before the new notes would replace the historic greenbacks and familiar dollar bills. The public is always eager to obtain any kind of new money or coins and this natural impulse is counted on strongly to bring about a rapid substitution, if the reduced size is approved.

The Different Angles

THERE are a number of angles in the practical problems that surround the proposal of reforming the currency. Before the Treasury takes its stand, the committee of experts will go into every detail fully. One group is considering new designs, which will make counterfeiting more difficult and the cost of production lower by combining the various symbols and counters. Another is considering the mechanical aspects of the problem to determine the costs involved and how the inauguration of the new issues might best be effected. A third is making a thorough examination of the distinctive paper supply to ascertain if it would be possible to improve the wearing qualities of the especially manufactured linen paper and thereby lengthen the life of the paper money. The economies that might be expected to result from the reform are being cast up and totaled by another group, while another is considering the contract clauses that ap-

pear in the legends on the paper money to see just how all the legalities connected with the issue of currency are to be met.

There are now twenty-eight separate counts before a dollar bill reaches the tills of the banks. Perhaps a few of the intermediate checks could be dispensed with. The legal aspects of the various proposals are being carefully considered because the Treasury must be sure that it does not take any step for which there is not the sanction of law.

Decision in Few Months

ASSISTANT SECRETARY of the Treasury Dewey estimates that the experts' report will be ready for the consideration of Secretary Mellon early in 1926. This will not be the first time that Secretary Mellon has been called on to pass on the novel proposal.

As late as 1923, the Treasury gave consideration to the reduction of the size of the currency. At that time it was concluded that the matter should be held in abeyance until the Bureau of Engraving and Printing had emerged from the pressure of work incident to the post-war operations of the Treasury, it being deemed desirable to avoid the introduction of any revolutionary changes in the currency structure at a time when the Bureau had not yet returned to a normal program of work.

Conditions in the Bureau of Engraving and Printing have improved considerably since the time that the Treasury took this action, which was based on the recommendations of the specially appointed committee. The post-war rush has subsided somewhat and it has been indicated that the changes might be made without drastic changes in the mechanical set-up of the Bureau and without interference to the other work in which the Bureau is engaged.

A glimpse of yesteryear in the Bureau, when hand presses were used instead of power presses to make our currency

However, even if the Treasury should decide to take the momentous step, certainly a year would elapse before the new money would appear in circulation. Fully a year would be required to prepare the necessary dies for the various denominations because hand engraving is a slow and tedious process and there are not more than twenty-five engravers in the Bureau, who can do this fine work. After the dies were prepared, the presses would have to print the new bills and a large stock would have to be accumulated before the new sizes went into the banks for current use. In the meanwhile, the Bureau would have to continue to produce the present sizes—for the wheels of the plant could not stop for even a short time.

More Subscriptions for Educational Foundation

SINCE the close of the Atlantic City Convention, the Fiftieth Anniversary Committee has been going ahead with its plan to raise a minimum fund of $500,000 with which to establish the Educational Foundation. State committees have been appointed and many of them are already at work raising the quotas. Total actual cash and pledges in hand on November 1 were over $482,000, while conditional promises outstanding indicate that the final total will be well over the designated half-million mark.

Additional subscriptions for $5,000 have been received from Kuhn, Loeb & Company, of New York, and from Arthur Sachs, of Goldman, Sachs & Company, of New York. Subscriptions for $1,000 each have been made by William C. Potter, Guaranty Trust Co., New York; Charles A. Hinsch, Fifth-Third National Bank, Cincinnati; Edwin F. Swinney, First National Bank, Kansas City, and Robert F. Maddox, Atlanta and Lowry National Bank, Atlanta.

The directors of the Irving Bank-Columbia Trust Company of New York, who were announced at Atlantic City as giving $2,500, have made their subscription a round $3,000.

Membership Dues

UNDER the By-Laws, dues are payable in advance on September 1 and the Constitution provides that non-payment of dues within three months after they are due (November 30) shall result in forfeiture of membership. A very large percentage of the members have paid their dues, but those who through oversight or other causes have failed to remit are urged to do so promptly, and thus avoid unnecessary correspondence and delay in completing collections. Such cooperation will be appreciated.

A certificate-draft covering membership dues was forwarded to all members on September 1 together with an insert for the membership sign. On the reverse side of the certificate-draft the schedule of dues was printed, but if the certificate has been misplaced, members are referred to the schedule of dues on page 115 of the August, 1925, issue of the JOURNAL.

Seventy per cent of all banking institutions are members of The American Bankers Association and this is the best evidence that membership is valued.

Remittances should be forwarded in New York funds direct to the American Exchange-Pacific National Bank, New York, making checks payable to the order of that institution.

Rail Merger Study

A STUDY of the railroad consolidation situation is to be made by the Commerce and Marine Commission of the American Bankers Association. John G. Lonsdale, president of the National Bank of Commerce in St. Louis, has been designated as chairman of the special committee that will conduct the inquiry. The other members of the committee are Robert F. Maddox, chairman of the board, Atlanta & Lowry National Bank, of Atlanta, and John McHugh, president, Mechanics and Metals National Bank of New York City.

Mr. Lonsdale has had a wide and intimate experience in transportation. He founded the Little Rock and Hot Springs Western Railroad and is at present a director of the Western Pacific.

The special committee will go into the economic phases of the proposed railroad mergers and will look into related questions.

As the Cartoonists View Economic Events

"Too Much to Expect."—Halladay in the Providence Journal

"If Europe Can Secure Him, She'll Soon Nab His Discontent Breeding Pals."—McCutcheon in the Chicago Tribune

"In Distress."—Orr in the New York Daily News

"The Firebug."—From the Los Angeles Examiner

"And a Little Child Shall Lead Them."—Orr in the Chicago Tribune

"The Golden Fleece."—Williams in the Seattle Post-Intelligencer

"We Might Get Some Tips from the Other Fellow's Game."—Spang in the Montgomery Advertiser

"A Chance for Another Air Investigation."—Brown in the New York Herald-Tribune

"A Tedious Task."—Sykes in the Philadelphia Evening Public Ledger

Who Will Dominate in the Field of Distribution?

By SILAS BENT

There Are, Figuratively, Three Standing Armies in the Field—Chain Stores, Department Stores and Retail Merchants. Stake Is Retail Business Amounting to Thirty-five Billions Each Year and Employment of Three and One-Half Millions of People.

FEW spectacles in American commercial life are so engaging as the growth of chain stores. New systems and new units spring up almost overnight. There are more than four thousand chains, large and small; and they have an annual turnover in the billions. We can buy anything in them from clothes to literary classics, or best sellers; from food to hot water bags, from a pick-axe to the Ten Commandments.

The business genius of this country, after devoting itself for three-quarters of a century to mechanical ingenuity and mass production, has turned at last to distribution, until recent years too much neglected. The turn is from industrial efficiency to greater commercial efficiency. No more important matter confronts the buying and selling public. It is estimated that fifty cents on the dollar we spend at retail goes for distribution, which is mainly an intangible, since it consists mostly of services. To the extent by which chain shops lop pennies from that half dollar, they are important here and now. The pennies saved go into the nation's annual surplus, and are available finally for productive investment. But chain stores—"multiple shops," the English call them—have a significance just as great in the prospect they hold forth of readjusting the pattern of our commercial life.

Let us consider first this matter of readjustment: Not long since I stood in a small New Jersey town, in the early morning, waiting for an interurban automobile. The point of departure happened to be in front of a five-and-ten-cent store; and the young man who was to be the only other passenger gazed with strong distaste on its heterogeneous window display. Presently his emotion found vent in words.

"Those people," he said, with a jerk of his head toward the shop, "have put more manufacturers out of business than any panic we have ever known."

This was startling. I asked how and why.

"They buy up a manufacturer's stock for a year, and then, when a competitor comes along with a bid a little lower, they throw the first man over without notice. He has lost contact with his market. He cannot build up a selling staff in a day. So he is forced into bankruptcy. They have ruined many a man that way."

It seemed possible that in rare instances this might have happened. The obvious remedy lay in longer-term contracts and in the requirement of ample notice on either side before terminating the agreement. I could not believe that many manufacturers were so short-sighted as to neglect these precautions, and said so. Some chain systems, as a fact, do part of their own manufacturing. And then the real cause of my companion's grievance came to light. Chain stores threatened his own business. They dispense largely with traveling salesmen, whose necessarily high expense accounts and usually liberal pay are a considerable factor in distribution costs. My new acquaintance was wondering what shift of occupation the chain systems might force on him, some day; and perhaps he was wondering, although he did not say so, what effect on commissions a decrease in the demand for "drummers" might have.

Not long after this a hardware man was aggrieved when I objected to the price he was charging for a cheap pair of pliers.

"As good a pair as this costs only twenty-five cents in the chain shops," I protested. He was asking forty cents.

"I can't compete with those fellows," he retorted. "It's utterly impossible to meet their prices. They carry nothing like the stock I do; if you want a good pair of pliers you've got to come to me. And they pay only about two-thirds as much as I do for the stock they carry. I don't know what's to become of the independent retailers in this country."

Independent Will Live

HE had answered his own implied question. The independent retailer will continue to exist because he carries a more varied stock, and is better able to satisfy those customers who do not feel the necessity of counting nickels. There are about a million and a half retail establishments in the United States, one, let us say, to every twenty-four workers; and of these only about 65,000 are chain stores. But the number of retailers is estimated to be increasing nearly twice as fast as the population, so that undoubtedly many of the less efficient must go by the board in the face of the extraordinary expansion now under way in the chain systems. However great the misfortune this may bring in individual cases, it is but the working of an inescapable economic law. The rate of mortality among independent stores is extremely high; a decade ago the average life was seven years; now it is but five; and it is clear that many of those who survive might thrive to much better advantage, both for themselves and for their communities, in some other activity.

Main Channels of Distribution

ASIDE from the independent dealer, there are four main channels of distribution: department stores, mail order houses, company stores maintained by corporations for their employees, and chain systems. The company stores, although they handle the surprising total of 4 per cent of the country's retail business, are not likely to figure in the great struggle which looms ahead for the other three; except that in time, it is conceivable, corporations may find it expedient to establish units of different chains in place of their own stores. The war for markets will be triangular. It will be between the department stores, the mail order houses and the chain systems. Indeed, it is that now.

At present more than two-thirds of the nation's retail business is in the hands of independents, who have a total turnover of twenty-four billions. The struggle under way is mainly an effort to capture more and more of this business; but it involves also the business already held by the competitors, and the creation of new markets.

The department stores, doing an annual business of $50,000 or more, have about one-sixth of the retail trade, amounting to five and one-half billions. There are 3700 of them.

The mail order houses, doing an annual business of $100,000 or more, have possession of about a billion and a half of the business, a little more than the company stores. There are 1200 of these houses.

The chain systems handle nearly three billions of business. They control about 65,000 units.

A Stake of Thirty-five Billions

THERE we have, so to speak, the three standing armies in the field. The stake is an aggregate retail volume of thirty-five billions, in fifty main lines, employing three and one-half millions of persons.

It is not a war to the death, of course, so far as the three main combatants are concerned, although there will be minor casualties here and there. Mainly it will be a battle of the big corporation with the small

shopkeeper, and the casualties are to be expected in the latter field. The department stores are girding their loins with combinations. In a single group there are eight such stores and one big specialty shop, in five cities, and in effect these are chain shops; while in another camp the Kresge interests have adventured into the department store business on a chain system in addition to their shops of the kind we usually associate with chains. From these maneuvers one may guess at what the strategists will do during the next few years.

The economies effected by chain store operation are so apparent that not much space need be devoted to them here. The first lies in large-scale purchasing, even to the entire output of a manufacturer; or in manufacturing for one's own shops, which is an approach toward the "vertical" business enterprises popular in Germany just after the World War. Perhaps it is not too far a cry to suggest that in time the chain shop corporation may own and operate the mines or cotton fields, the forests and plantations from which its commodities are drawn, in addition to owning the mills and factories, as some of them do now.

But even mass buying hath its victories no less renowned than mass production. Volumes bound in book cloth, printed on good book paper from plates, may be sold at a profit for ten cents when ordered by the half million or more. This is but a random instance, chosen because of its contrast with the $2 popular novel of today. To sell a volume at ten cents involves an assured demand, efficient production and efficient distribution; and in the ordinary publishing business, efficiency is wholly lacking in each of these factors. The book publishing business is so badly managed and so ill-organized that it affords an excellent example to set against the chain system.

Eliminates the Middleman

SOME small chains operate only in single cities, whereas the large ones cover the country. The large ones, obviously, must have their regional warehouses, whence goods can be shipped economically to nearby units as needed. In some quarters an attempt has been made to compare these warehouses with the wholesalers and jobbers found in the ordinary course of commercial distribution. The difference is clear. For years there has been complaint in this country about the middleman, much of it ill-founded; but certainly one of the main purposes in the formation of chain systems is to eliminate the expenses middlemen involve.

Quantity buying is accompanied by quantity selling, of a character to make the head of the independent retailer a little dizzy. The turnover in most chain shops is extraordinarily rapid; and in some of them self-service, which means a further elimination of ordinary distribution cost, is the order of the day. Almost without exception, it is a cash and carry business, resulting in additional economies.

There is the further saving effected through standardization. A fully stocked independent grocery store in a large city carries about 6000 items; in a town of 5000, about 2500 items. The usual range of chain groceries is from 2000 down to 500 items.

The Woolworth Building—A towering monument in New York to the chain store idea.

The enormous economy in warehousing and investment is at once apparent. This method of carrying but a few brands of one item, so that the customer has but a narrow range of choice, has been a cause of frequent complaint. It is but another sign that the various methods of distributing goods will in time find their own level, and that none of those now in existence is likely to perish from the earth. But in the process of seeking new levels there will be a vast shifting of sales, a readjustment of capital investment.

Comparable Change in Manufacturing

THE process already under way is not dissimilar to that which, in the last half of the Nineteenth Century, converted manufacturing from a business of small independent units into a field dominated—although small units still survived—by corporations of national scope and immense capital. In the Twentieth Century like changes are taking place in the retail field, although they have been most marked during the last ten years. It is true that the Great Atlantic and Pacific Tea Company began sixty-seven years ago to distribute its commodities through stores so closely integrated that they might well be called chain shops; but it was a long while before American business to any great degree stopped, looked and listened.

As a rule the chain stores, starting from small investment, have thriftily turned back their profits into the business as they went along, establishing a new unit here and another there, without asking for outside financial assistance. Few of them have turned to public financing until after they had become firmly established, and investment bankers seem to regard this as the wiser course. Some of the bigger chains now number their stockholders by the thousands, as do the railroads; and some of them are ranked among the "aristocrats," so far above par do their stocks stand on the exchanges. Not so long ago one of them finished writing off its books $50,000,000 of good will, thus squeezing from its stock the last drop of water. It was done by degrees over a period of three years. But this company did not call in the investment bankers until it had gross sales of sixty millions and a highly trained executive personnel. In cases where sudden expansion has been sought, through public financing without some such background of experience and training, there have been several conspicuous failures.

Twenty of the larger chains, whose stock is on the markets and whose aggregate capitalization is well above a billion dollars, have annual sales even greater than their capitalization and are paying on their common stock alone more than $75,000,000 a year.

The Shadow of a Man

NEARLY every chain system, large or small, is the shadow of a man who began with little or no capital. Probably no phase of American business offers better proof of the opportunities awaiting industry, shrewdness and vision in this country. Grocery, drug and tobacco chains have been the most spectacular in their growth; the Atlantic and Pacific, with more than 10,000 shops, is the greatest of them all. It owns a can factory and eleven bakeries, and has

(Continued on page 383)

National Bank Real Estate Loans

By LEWIS ALEXANDER

Adoption of One Feature of McFadden Bill, Sanctioning Five Year Loans on Improved Realty and Farm Lands Will Make Vast Amount Practically Available for This Use. Will Afford a Profitable Outlet for Investment of Country Bank Funds.

THE national banks, under the present law, are empowered to devote as much as one-third of their time deposits—or nearly two billion dollars—to loans for a period not exceeding one year on improved urban real estate and farm property. But, with this huge sum available, their total real estate loans outstanding do not amount to a third of the amount they might lend.

One reason for the relatively small sum loaned on real estate security is the provision in the law which places a one year limit on the loan. This restriction makes the extension of loans on real estate by the federally chartered banks impractical because borrowers are disinclined to make a mortgage for such a short period, due to the cost of appraisement and examination of title, coupled with the uncertainty of annual renewals.

How seriously this handicap has restricted the eight thousand national banks in their operations may be indicated by the fact that all of the real estate loans outstanding on June 30, 1925, amounted to just $636,798,000. The time deposits aggregated $5,924,658,000 on this date—so a total of $1,974,886,000 might have been used, had the judgment of bankers so dictated, in making loans on this type of security.

One of the fifteen changes that the McFadden bill proposes to make in liberalizing and modernizing the charters under which the national banks are operating is a provision that will extend the time limit on real estate loans to five years. This amendment will vastly extend the marketability of the banks' funds in the real estate mortgage field, and it will actually release the greater part of the two billions for loans that can be readily made in all parts of the country.

THE Comptroller of the Currency regards the proposal as one of the outstanding changes to be wrought by the passage of the McFadden bill. It is believed that more than 90 per cent of the eight thousand banks in the national system will be able to take advantage of the changed conditions that the passage of the bill would bring. At the present time, a national bank enjoys the right of making loans on improved city real estate and improved farm lands, within the Federal Reserve district or within a hundred miles of its main office. However, the loan cannot be made for more than one year. This limitation is so severe, that, as a general rule, the national banks have had to leave this field largely to the state banks or to other agencies.

From the standpoint of the banks, the new authorization will give the country banks a profitable outlet for their funds. It will permit the national banks in the larger cities to put out a considerable part of their deposits into the active field of real estate loans on improved property.

When the national banking system was set up, it was contemplated that the banks would be strictly commercial banks. There was no provision, at the outset, for the handling of savings deposits, but years later they were permitted to open up savings departments. How far this movement has run is indicated by the figures of the Comptroller of the Currency, which show that, on June 30, last, there were 4558 national banks which maintained separate savings departments, having deposits of $4,558,899,000.

Congress Sanctions Loans

REAL ESTATE loans by national banks were not sanctioned by Congress until the passage of the Federal Reserve Act, when these institutions were given the right to make loans for one year under first mortgages on improved real estate or improved farming property.

The condition of the banks, as revealed by the bank call on last June 30, shows that $122,214,000 had been loaned on farm lands and $269,247,000 on other real estate. In addition to these approved loans, more than $200,000,000 in loans outstanding represented advances secured by liens on realty.

As security for debts previously contracted, the national banks had paper aggregating $123,332,000 on farm loans and $81,874,000 on other real estate. Generally the mortgages on this property were given to the banks by customers, who found themselves unable to pay off the loans that they had previously contracted and gave first liens or second mortgages on real estate to satisfy the banks. Thus a goodly percentage of these loans are "distress loans."

Loans, secured by real estate mortgages or other liens on realty not in accordance with Section 24 of the Federal Reserve Act, were outstanding to the extent of $40,131,000—$10,334,000 on farm lands and $29,797,000 on other real estate. All of these classes of real estate loans total $636,798,000, which represents the activity of national banks in this field.

Despite the severe one-year limitation, the national banks are managing to put a good part of their funds into real estate loans. While they can not formally enter into a loan for a period of longer than one year, many of the national banks make one-year loans with the understanding that these will be renewed from year to year. There is nothing binding about this arrangement, however, and it is not as satisfactory as if banks legally make loans for a period of five years. Surmounting the present handicaps to a certain extent at least, the national banks during the past fiscal year increased the volume of their one-year loans on farm lands by $6,203,000 and increased the loans on other real estate—principally improved city property—by $80,350,000.

THE present law permits national banks to loan an amount up to one-fourth of their capital and surplus, or one-third of the total time deposits on the security of improved real estate. The McFadden bill, as it was passed by the House of Representatives, left these percentages undisturbed. After the Senate Committee on Banking and Currency had held hearings on the bill, it decided that the national banks might safely loan up to half of the total time deposits on the security of this type of real estate and the bill was thus amended to permit freer lending. It was never contemplated that the banks should be permitted to loan demand deposits on real estate, however.

This particular feature of the McFadden bill met with little or no resistance in the House of Representatives. In the Senate committee, Senator Fletcher, of Florida, and Senator Phipps, of Colorado, raised the question during hearings as to advisability of allowing national banks to make this type of loans but upon being assured that the Comptroller of the Currency favored the provision and no objections had been cited by other authorities to it, they did not press any objections. C. A. Hinsch, president of the Fifth-Third National Bank of Cincinnati and former president of the American Bankers Association, urged the Senate committee to approve the making of real estate loans for the five-year period, to an extent of half of the time deposits and other bankers expressed the opinion that the making of these loans would not result in frozen assets.

Should the McFadden bill pass Congress in the form that it was reported to the Senate, national banks now might loan half of their time deposits on improved real estate, or a total of around $2,962,329,000—if all of the banks availed themselves of the privilege to the limit. This would make more than $2,300,000,000 available for these loans than is now outstanding. If the limit were maintained at one-third of the time deposits, they would be in a position to loan $1,338,000,000 on improved urban and farm lands.

There is a possibility that this section in the new McFadden bill will include some provision as to the appraisement of property. It is now silent on this important point and many of the state laws are also. Mr. Hinsch

has raised the point that it might be well to throw certain safeguards around the appraisement and provide some method of procedure for ascertaining the value of real estate, upon which loans are made.

Comptroller Favors Provision

DEPUTY Comptroller of the Currency Charles W. Collins, who has served as spokesman for the Comptroller's office before the Congressional committee in connection with the McFadden bill, recently asserted that the "lack of authority to make loans of this character is the most severe handicap that many of the national banks face today."

"To allow national banks to loan an amount equal to one-half of the savings deposits for a period of five years upon first mortgages upon improved city property is a safe and sound amendment and of great practical interest to the rank and file of national banks," Mr. Collins states. "There are today more than eleven million individual savings depositors in national banks with total deposits of about five billion dollars. What safer proposition could there be than to permit these banks to loan one-half of these savings upon such gilt-edged security as one-half of the appraised value of the property? The state banks and trust companies have already prospered in this business and it is only fair that the national banks be permitted to render a similar service to its customers.

"A short time ago a national banker from a moderately sized eastern city made a visit to the Comptroller in advocacy of this amendment. Here is in substance what he said: 'Let me give you an illustration of how my bank is handicapped by the inability to make loans upon improved city property for a longer time than one year. I have just lost an old and valuable customer of the bank. Several years ago he secured his first loan from us to start in the shoe business. Year by year we financed his business and watched it grow. A few days ago he came into the bank and said it was necessary for him to have a considerable loan to mature in five years in order to enlarge his business operations. We said to him, "What security have you to offer?" He replied that he could give a first mortgage on his building. We explained that being a national bank we could not make him such a loan for a longer period than one year. We had met all of his financial needs up to this point in his business career but now we failed him. He went across the street to a young and enterprising trust company, which took his mortgage for five years. The money was deposited to his credit in the trust company and shortly thereafter they got his commercial account from us. I ask you, Mr. Comptroller, how long do you think that my bank, or any other national bank similarly situated, can withstand such competition with no power to meet it? In my town a three to five year first mortgage note secured by improved city property is the very best security as well as the most liquid that can be offered. It is a good business proposition for the town, the customer and the bank. Why should my bank be driven to invest in foreign bonds of which we know nothing when this four-leaf clover of business prosperity is at our doors?' He said that fifteen years ago there were in his town four national and three or four state banks. Today there are fifteen trust companies and two national banks. Each of these national banks, said he, had one eye on the McFadden bill and one on a trust company charter.

"It is to enable national banks to meet just such competition as this that we would like to see them empowered to make loans on improved real estate for a five-year period."

The Need for Sounder Banking Methods

By J. W. McINTOSH
Comptroller of the Currency

THE proper function of banks is to finance the temporary requirements of customers who with their own capital are engaged in profitable, business ventures. Sound banking principles cannot justify lending the money of depositors to create or to rehabilitate the capital investment of borrowers. There should always be, between the bank and a possible loss on a loan, a suitable capital investment by the borrower, which would have to be wiped out before the bank could suffer loss.

One of the chief causes of grief for national banks, particularly in certain parts of the West, is the custom which was formerly all too prevalent in that section, of continuing to finance debtors who are insolvent or whose capital has been seriously impaired in the hope that future profits may enable them to pay up. That sort of a loan might be justified if made by an individual handling his own money and willing to take the risk involved. But such loans ought not to be made by banks from the funds of depositors; and wherever they have been made they have always resulted in a high percentage of disasters. This kind of banking is bad enough when the advances to a single borrower are kept within the bank's legal loan limit; unfortunately, even that important restriction has not always been observed.

THERE has been a practice in some sections of the West, which I am happy to say is dying out, that is known as "placing paper." That is, a bank will loan a customer the legal ten per cent of its capital and surplus. After that, it will take the customer's notes and send them to some other bank, selling them "without recourse," but with the understanding, sometimes in writing and sometimes personal, that if the notes are not paid then the first bank will be responsible for them. By this very dubious procedure, too many bank officers have assumed to justify themselves in stating officially that the bank is under no liability for the payment of such items. Of course, such a statement is at least evasive, and may amount to a sweeping misrepresentation of the condition of an institution.

The effects of this practice were evidenced in the case of one bank, which was recently closed in a northwestern state. The total loans shown on its books were $250,000; but it had sold paper, in the fashion I have described, for its customers, to the amount of more than $900,000. Of course, the bank failed. It claimed that no liability was attached to it on account of this $900,000 of paper which had been sold, nominally, without recourse.

But it is worth while to observe here that after the bank's failure, a number of suits were filed, and the receiver in reporting upon them writes: "It is not believed that the primary purpose of bringing these suits was to recover the amounts alleged therein, but to endeavor to fix the liability on this bank of various loans aggregating close to one million dollars, and which were taken personally by A and B (officers of the bank) and then sold by them to another bank, this bank never having appeared in the transaction."

IT is against such dangerous banking methods that all bankers need constantly to maintain an unyielding hostility. Fortunately, they are less and less indulged. The constantly increasing ability of the banks even in the least developed and wealthy parts of the country, to provide the legitimate requirements of their community has been one of the greatest improvements made possible by the establishment of the Federal Reserve System. Year by year, that system is becoming better understood and its advantages more generally availed of.

It has served equally well the financial and industrial centers, the cotton states of the South, the farming and livestock communities of the Middle and Mountain West. Our experience with it, together with our confidence in the continuing and intelligent interest of the administration at Washington, in behalf of every measure of constructive progress, warrants us in our confidence that the present sound position of the nation's business will not only be maintained, but will be improved steadily through a long period of true national prosperity.

Los Angeles Convention

IT has been definitely decided that the annual convention of the American Bankers Association for 1926 will be held during the first part of October at Los Angeles, the city chosen during the convention recently closed.

The Los Angeles Biltmore has been designated as the headquarters hotel for the convention and the principal sessions will be held in the Philharmonic Auditorium on Monday, Tuesday, Wednesday and Thursday, October 4, 5, 6 and 7.

The Trend of Bank Legislation

By FRANK W. SIMMONDS
Deputy Manager, American Bankers Association, State Bank Division

Idaho, Oregon and Wyoming Adopt New Banking Codes During 1925. Fourteen Definite Tendencies Revealed by Action of Legislatures in 42 States. Increase in Minimum Capital Requirement to $25,000 Indicated. Guaranty Laws in Eclipse.

THREE new modern banking codes were added to the state statutes during 1925.

This action stands out as the most important achievement in banking legislation during the year, although a vast number of changes—many of which may be expected to exert a material influence over banking and business—were made by the legislatures which convened in forty-two states during the year.

In fact, 1925 will undoubtedly take rank as a notable year in the annals of State Banking Legislation.

Need for Uniformity

IN recent years especially, much thought and study have been given the problem of more uniform banking laws and more uniformly efficient state bank supervision in the several states of the Union.

In line with this thought, the State Bank Division of the American Bankers Association has repeatedly declared in favor of more uniform banking laws and has consistently urged that the important office of bank commissioner be made as free from partisan politics as the judiciary itself, and divorced from all other functions of state government; and that the tenure of office of bank commissioner be made more secure and lasting, with sufficient compensation and discretionary power granted to attract and retain the services of men of outstanding executive ability and successful banking experience. Gratifying progress has been made along this line in recent years—and especially the past year.

Doubtless, absolute uniformity of banking laws in all the states would be impossible to secure, and unwise if secured; for one of the elements of strength in state banking laws is their peculiar adaptability to the special business needs and conditions prevailing in the various states. Nevertheless, it is generally agreed that there should be a high degree of uniformity as regards the fundamental principles of banking, bank organization, regulation and supervision.

E. E. Amick, vice-president, First National Bank, Kansas City, Mo.; president, Missouri Bankers Ass'n

The Fourteen Trends

A SURVEY of new bank legislation enacted during the past year in the several states reflects a very definite trend in legislation toward:

Increasing the minimum capital requirements of banks to $25,000, thereby increasing their efficiency.

Increasing the discretionary power of bank commissioners as to granting or denying charters for new banks, and authorizing their making reasonable rules and regulations governing bank management.

Creation of banking boards to act in an advisory capacity with the state bank commissioner.

Increasing the compensation of the bank commissioner and lengthening his term of office to four, five or six years, with power to appoint necessary deputies and examiners.

Empowering bank commissioners to take complete charge of and to liquidate insolvent banks as distinguished from liquidation through the courts.

Limiting or prohibiting an officer or director of a bank borrowing from his bank, unless his collateral is approved by a majority of the Board of Directors.

Legislation providing for closer supervision and regulation of building and loan associations.

Legalizing "finance companies," "credit unions," etc., and placing them under the supervision and regulation of the department of banking.

Legalizing and regulating "departmental banking."

Legislation providing for merger, conversion or consolidation of banking institutions.

More equitable taxation of bank stock.

Broadening the field for investment of funds of savings banks and trust companies.

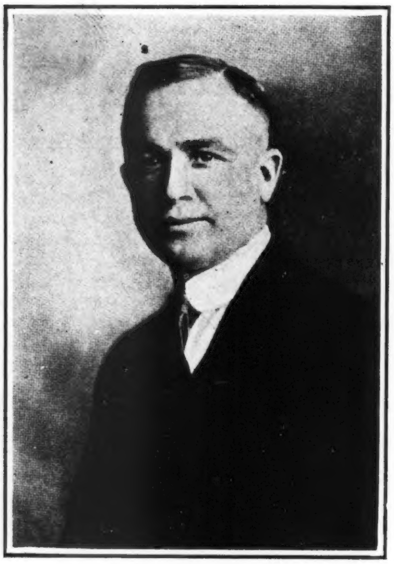
Legislation providing for reducing mandatory bank calls to three, and reducing the number of examinations required by law annually to one examination: more frequent calls and examinations optional with bank commissioner.

Making issuance of worthless checks a misdemeanor.

Guaranty Laws in Eclipse

THE question of state guaranty of bank deposits appears this year to have passed into an eclipse, so far as the extension of the idea is concerned, notwithstanding the fact that while state guaranty laws were recommended by the governors of two states, and bills were introduced in several states, all were defeated. The general tendency regarding state guaranty of deposits laws is distinctly the other way—some states now having guaranty laws looking toward the repeal of this legislation. Oklahoma rescinded her guaranty of deposits law, and this year the South Dakota legislature repealed its state guaranty law and

C. W. Boyden, vice-president, Farmers State Bank, Sheffield, Ill.; president, Illinois Bankers Association



J. S. Bussell, president Citizens Bank & Trust Co., Pocatello, Idaho; president, Idaho Bankers Association

has referred the repeal to the people at the next general election for ratification.

With the tendency of states to lean less on political guaranty laws of doubtful efficacy to protect deposits, the banks are realizing more and more their responsibility to insure the safety of funds intrusted to them by taking voluntary measures to keep themselves strong and sound.

It is becoming more and more evident that the extension of Clearing House work, including Clearing House examinations and interchange of credit information to towns, cities and counties, is serving most successfully the purpose of the idea of protecting deposits. The records show that depositors have never lost a dollar in a bank under the supervision of the Clearing House examiner system.

In revising and modernizing their banking laws, Idaho, Oregon and Wyoming drew heavily upon the best banking experience in this country, adopting the proved principles of the most advanced state codes and adjusting the provisions to the peculiar needs of the western territory.

Causes of Bank Failures

THE Idaho banking code committee, as a part of their work, made a careful study of recent bank closings in the state and reached the conclusion that the causes of such failures were several in number:

First, that the state of Idaho had had too many banks operating in proportion to the volume of business and possible earnings therefrom in the state. It was felt therefore that charters hereafter issued should be limited to the necessities and present volume of banking business in the community in order that banks should each have a sufficient amount of business to have an earning power that would take care of overhead expenses and leave profits to be used in building up and fortifying the bank through surpluses and reserves. The minimum capital therefore was raised from $15,000 to $25,000 for any and all banks hereafter to be created.

Second, in a number of instances it was found that the banks had been weakened through the excessive borrowings of officers and directors who were in the enviable position of being permitted to pass upon their own credit. The new code requires that not more than 40 per cent of the capital and surplus of the bank shall be loaned to directors, officers and employees and that the indebtedness of any officer other than director or employee, shall not exceed 5 per cent of the paid up capital and surplus; that such loan shall only be made after being first approved by a majority of the board of directors and that no officers actively engaged in the management of any bank shall be permitted to borrow any amount whatever from the bank by whom employed, except upon good collateral or other ample security or endorsement, and then only after the same has been approved by a majority of the directors or a committee of the board of directors authorized to act.

Third, a number of the closed banks, it was believed, were destroyed through their borrowing large sums of money from correspondent banks or Federal Reserve Banks for the purpose of loaning to patrons without due care being taken to the security and certainty of repayment by the patron thus accommodated. In some instances this amounted to many times the amount of capital and surplus of the bank. The failure to liquidate successfully the rediscounts thus made produced the downfall of the institution engaged in this class of business. No restriction formerly existed as to the extent to which this sort of thing could be indulged in; neither was there any restriction on the amount of collateral, in proportion to the amount borrowed, which could be granted. Sometimes as high as three to one was furnished. The new law permits the bank to borrow a sum not greater than twice its capital and surplus and to pledge its assets for the security of such borrowings on a ratio not greater than one and a half to one, without the express and previously obtained approval of the Commissioner of Banking.

Can Remove Officials

FOURTH, a survey of causes for closing brought forth the conclusion that some failures were due to the incompetence of the banker and a lack of a proper sense of serious responsibility on the parts of some officers for the safeguarding of the funds entrusted to them and their bank. The new law authorizes the Commissioner of Banking to require the removal of any such officer and the refusal or failure of the board of directors to so act, after notice, makes such directors personally responsible for any further losses which the bank may suffer due to such incompetence, heedlessness, recklessness, or other deficiency on the part of the bank officers.

These are several of the salient changes in the law and the ones which are believed to be most essential to the safety of the future bank in the state, although the law contains other than those named and which it is believed will be conducive, under firm and experienced administration, to rebuild in future safety and solvency the banking structure of the state. Seven national banks in Idaho have surrendered their charters since the law was passed and have been converted into state banks, which is apparently contrary to the experience of some states having recently amended state banking laws.

Charles Vandenhook, president Commercial Nat. Bank, Bozeman, Montana; president, Montana Bankers Association

The provisions which were included in the new state banking laws for Oregon, represent the combined judgment of as many men and groups directly interested in the subject as it was possible to secure. Some of its interesting provisions are:

The state banking board appoints the superintendent of banks, who shall hold office for four years from the date of his appointment, unless sooner removed for cause, and until his successor shall be appointed and qualified.

The superintendent of banks with the approval of the state banking board, has the power to adopt and promulgate reasonable and uniform rules and regulations governing the conduct and management of all banks and trust companies, created, organized or existing under the laws of the state of Oregon, and to govern the examination of statements and reports made by such banks or trust companies.

The superintendent appoints such clerical assistants as shall be required for the conduct of his office. All such assistants, including examiners, shall hold their positions during the pleasure of the superintendent of banks.

The "departmental system" of banking was adopted whereby commercial, savings and trust departments are segregated to protect further savings depositors.

The policy providing for the liquidation of insolvent banks by the state banking department instead of through the courts was continued.

Provision was made, in the case of banks or trust companies only temporarily embarrassed, whereby the superintendent of

banks may permit the officers and directors of such bank or trust company to arrange with its depositors and creditors for extension of time, thus allowing said bank or trust company to resume business.

The opening of branch banks was prohibited with the exception that the superintendent of banks might authorize the establishment of a branch office within the city of Portland.

Full information was provided as to the course to be followed in the conversion of a national bank to a state bank or a state bank to a national bank.

Provision made whereby specific penalties may be imposed upon persons issuing worthless checks or checks for which there are insufficient funds in the bank.

Practically all the recommendations of the American Bankers Association were incorporated in the new code.

The Wyoming Code

THE new Wyoming code gives the state bank superintendent more authority in the granting or rejection of applications for new charters. Minimum capital required for organization was fixed at $25,000 instead of $10,000.

More authority was granted the state bank superintendent in the supervision of banks, and a wide range of power was granted the superintendent to make rules and regulations governing banks.

The state bank superintendent was given authority to control dividends and to collect assessments on stock when capital is impaired.

Provision was made for the liquidation of closed and failed banks by the state bank superintendent instead of by the courts.

The segregation of savings department from the commercial department of banks was authorized.

It is discretionary with the state bank superintendent as to the number of examiners employed and salaries paid. A minimum of $1,800 and maximum of $3,600 was set by law.

Other provisions are: Defining more clearly and imposing more duties and responsibilities on directors; giving the state bank superintendent power to collect stockholders' liability immediately upon the closing of a bank, and more numerous and severe penalties for criminal infractions of the law.

Minimum Capital Larger

THE passing of the time when new banks may be organized with meager initial capitalization was definitely foreshadowed. In six states, the minimum capital required was raised. Bankers associations in two other states urged the legislatures to raise the ante. In Wyoming, the minimum figure was advanced from $10,000 to $25,000, in Idaho from $15,000 to $25,000 and in Utah from $20,000 to $25,000. In most of the forty-eight states, the minimum is now $25,000.

The advance is generally attributed to the fact that the purchasing power of the dollar is less and that therefore it takes a larger amount of money to finance the same transactions. The state laws generally forbid the loan of more than 10 or 20 per cent of the invested capital to any one borrower, so it has become increasingly difficult for a bank, with the smallest capital, to care for the needs of the community. Then, too, it is patent that a larger capital affords more security to the depositors.

Arthur B. Chapin, vice-president, American Trust Company, Boston; president Massachusetts Bankers Association

Other Codes Foreshadowed

THE adoption of new banking codes by three states is, of course, a notable achievement within a single legislative year. There are indications, however, that other states will seek a complete revision of their banking laws at the earliest opportunity, and two definite announcements have been made.

In Montana, the Governor appointed a Banking Code Commission to study the banking laws, with the view of drafting a new code for submission at the next legislative session. This year, there was considerable legislation, dealing with the amount of capital stock, the qualifications of the Superintendent of Banking and the procedure to be followed by the state authorities when it is established that there has been an impairment of a bank's capital.

W. S. Irish, vice-president, First National Bank, Brooklyn; president New York Bankers Association

Charles O. Austin, Superintendent of Banking for Texas, states that there is in contemplation the construction of an entirely new banking code for submission to the next regular session of the legislature in January, 1927, and which it is hoped to make "the most modern and constructive state banking code in America."

Charles O. Austin, Superintendent of Banking for Texas, has made known that he is working on a new banking code for his state and that he hopes to submit it at the next session.

The scope of investments sanctioned as legal for savings banks and for the investment of trust funds was broadened. There are now thirty-eight states which have formally declared Federal Farm Loan bonds legal investments. Massachusetts made telephone company, state and municipal bonds eligible for savings banks, while the movement to make public utility bonds legal investments for savings institutions in New York made some headway, although there was no legislative action. Ohio and other states removed the ban on the purchase of issues by nations that were at war with the United States. The most significant tendency in this field is to revise the list of investments that may be legally made by savings banks and trust funds to permit investment in the bonds of the most substantial types of public utility bonds. Vermont made railroad equipment trust bonds eligible investments.

Departmental banking made further progress. The new Oregon code adopted this system, which is patterned after the California and New York laws. In Wyoming, a provision for the segregation of the savings department from the commercial department of the state banks was written in the code.

Broad Tendencies Only Are Treated

IT would be virtually impossible to catalog all of the changes made in the laws of the many states—and, for this reason, I have endeavored to give only the broad tendencies and to present the high lights.

In Nebraska, the legislature passed a law fixing 4 per cent as the maximum amount of interest that a bank may pay on savings deposits. The new order becomes effective next spring.

In Iowa, the legislature passed an act creating a public fund for the protection of public deposits. It created a separate fund in the state treasury by taking the interest paid on public deposits up to $500,000 for the protection of depositors in state banks. Iowa experienced a great deal of trouble over the action of surety companies in declining to bond banks and, in some cases, caused banks to close.

In many states, codes to regulate the operation of building and loan associations were enacted, the small loan business was further regulated and the setting up of credit unions was authorized.

A Still Better Banking Campaign

The Development of "Any Needed Safeguards That Will Make Our Institutions Still More Invulnerable to All Reasonable Criticisms" Is the Announced Aim of the Iowa State Bankers Association's Educational Movement. How It Is Conducted.

THE Iowa State Bankers Association, with the aid of the State Banking Department and those having to do with the administration of national banks in Iowa, has a launched a comprehensive campaign for "Still Better Banking in Iowa." The aim is set forth in a statement by Emil Webbles of Burlington, president of the State Association, as follows:

"The unprecedented conditions during the last few years from which banks and all businesses and farming are emerging were among other things unfortunately conducive at times to creating unintended misinformation. Bankers will be glad to have all become more familiar with the details of banking and will be ready to help them to do so. This campaign is also intended to get the bankers themselves to concentrate on any inherent weaknesses in the present system, if any, so that they can develop any needed safeguards that will make our great American banking system as a state institution in Iowa, at least, still more titanic in its strength and invulnerable to all reasonable criticisms. That job belongs to the bankers themselves. They should and must perform it if they are to keep progressive."

The movement began with a conference between a committee of the State Bankers Association, L. A. Andrew, State Superintendent of Banks, and officers of the Federal Reserve Bank of Chicago. This was followed by a meeting of the association's full committee, at which the State Banking Board was in attendance and which was addressed by Governor Hammill. At this meeting the campaign was outlined definitely and put under way.

The Methods of Campaign

THE campaign was divided into two major parts. The first had to do with the analyzing of "earnings and expenses" of all Iowa banks, based upon their total "earning assets." A questionnaire form to be sent to all banks was prepared by the committee, acting jointly with Mr. Andrew and with the statistical department of the Federal Reserve Bank of Chicago. It was planned to assemble this data on earnings and assets to "constitute a measuring stick or gage on the operation or administration of banks from the standpoint of efficiency."

The second part of the campaign, as outlined, consisted of three steps. The first was to hold a conference with the executive committees of all the clearing houses in Iowa to get their cooperation in the campaign. Sixteen cities were invited to and were represented at the conference. The second step consisted of calling together the presidents and secretaries of all the county bankers' associations and asking them to make every effort to take the campaign to

Emil Webbles, president First Iowa State Trust & Savings Bank, Burlington; president Iowa Bankers Association

the individual banks and bankers in their respective communities. The third step was the beginning of a series of twenty-five district meetings by the state committee, covering every section of the state. A "Still Better Banking in Iowa Week" was designated, and during this period district meetings were held. Members of the state committee headed by Homer A. Miller, of Des Moines, chairman, constituted the speakers' bureau and, with the aid of other bankers, addressed the various district meetings.

Stockholders of the banks, as well as the officers and directors, attended the district meetings at which the following high points in successful banking were stressed:

Administration—Striving for the greatest efficiency in bank administration.

Excess Loans—Eliminating excess loans, if any.

Capital Loans—Eliminating capital loans, if any.

Ability to Pay Assessments—Seeing to it that stockholders in new banks and reorganized banks own their own stock without hypothecation and can pay the assessments or double liability which the law imposes against banks if the need for the same should come.

Credit File—That each bank create a comprehensive "credit file" on its borrowers and keep the same current.

Directors to Direct—That the directors of banks shall direct and that no man must accept a directorship and no bank should extend the same to him unless that director shall do the duties which the directorship imposes upon him and which the depositors of the bank have a right to expect of him.

Interest Rates—Lowering of interest rates and instituting a campaign for cleaner banks and banking relating to accepting only better classes of loans and "shutting the doors" to every semblance of "taking risks," and looking toward adoption of interest rates both to the borrower and to the depositor that shall be still more nearly equitable to both if possible, consistent with sound and conservative banking.

County Credit Files—Looking to the creation of county credit files on borrowers and the employment of a manager for the purpose of eliminating the duplicator, or undeserving borrower, who attempts to borrow the depositor's money from banks in two or more towns of the same county. The banks will then have a check upon that person.

County Clearing Houses and Examiners—The work referred to in the preceding paragraph possibly will be extended to the point of creating county clearing houses and employing county examiners to supplement the work of the state and national bank examiners. The State Committee hopes to outline in due time, a uniform clearing house organization plan under which the banks in the several counties of the state can proceed to organize accordingly as they may deem best.

Service Charges — Many interpret service charges as representing a charge on "minimum checking balances." There is no reason why this committee cannot broaden the interpretation of that phrase to include among other things the following: If each bank through its county association and city clearing house would, among others, agree on some sort of uniform charges for doing the following services for customers instead of giving such service gratuitously, it would bring in considerable additional revenue to each bank.

Campaign to Go On

THE association's campaign committee announced that following the conclusion of the district meetings on October 29 the county associations would be expected to carry on the educational work and that about the first of the new year the committee would send out another questionnaire to learn what progress had been made.

"The committee does not consider this campaign a temporary one," it announced. "It is the contemplation of the officers of the Iowa Bankers Association to make its research work and statistical work permanent from year to year so that as time goes on 'efficiency' will be the watchword of the administration of all Iowa banking institutions."

The Small Investor

THAT the small investor has now become a very important factor in the control of investment money and that this class is buying and holding securities in increasing measure is revealed by the figures just issued by the United States Bureau of Statistics to show that of the total dividends distributed in 1923 (the latest official return available) one-third were paid to individuals earning less than $10,000 a year.

The dividends paid to individuals in this country earning between $1,000 and $2,000 a year exceeded in amount the total paid to those having incomes of one million dollars per year. More than two-thirds of the income derived from interest and investment in the above year was paid to persons earning less than $10,000 and more than one-half of it went to individuals earning less than $5,000 a year.—*W. H. Cool.*

The Bankers Bill and the Federal Reserve Banks

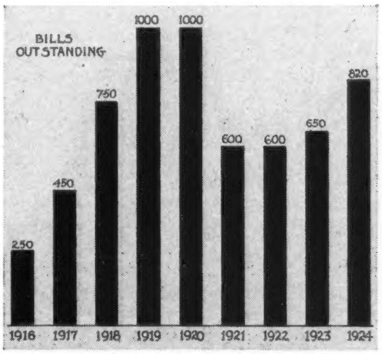
By W. RANDOLPH BURGESS
Assistant Reserve Agent, Federal Reserve Bank of New York

The Bankers Acceptance Is the Adopted Child in American Finance. Amount of Financing Done Through Bill Market Now Equal to That Carried Through Commercial Paper. Bills Provide Convenient Way for Banks to Adjust Reserve Position.

THE "bankers acceptance" or "bankers bill," or more familiarly the "bill," is a comparatively new member of the society of credit instruments in this country. It is an adopted child. It did not grow up from gradual and unconscious beginnings, as do most of our institutions, but it was taken over from London at the same time that the Federal Reserve System was inaugurated.

The adoption of the bankers bill was a matter of curiously unanimous consent. In the years from 1908 to 1913 banking reform was a major topic for congressional investigation and many bills were prepared dealing with the topic. Practically every one of these bills included some provision for establishing in this country a market in which acceptances might be bought and sold as they are in the discount market in London. In all the discussion surrounding the consideration of these bills and the debate over the Federal Reserve Act, there was hardly a dissenting voice to the proposal for establishing a discount market. Hence the Federal Reserve legislation granted to banks in this country the power to accept drafts drawn upon them. These accepted drafts were made eligible for purchase by the Federal Reserve Banks and thus the necessary foundations were laid for a discount market.

In the past ten years the adopted infant has been growing up in the midst of war and disturbed world credit conditions. Year by year the numbers and kinds of bills drawn have been increasing, and the market for bills has been expanding.



1—Growth of the bill market is shown by the amount of bills outstanding in the United States on December 31 of each year

Size of Market

THE rapid growth of the volume of bills drawn is shown in diagram 1, which gives the estimates by the American Acceptance Council of the total amount of bills outstanding at the end of each year. Under the stimulus of post-war trade activity a volume of business was reached in 1919 and 1920 of about one billion dollars. Price decreases and recessions in trade in 1921 and 1922 were accompanied by reductions in the value of bills in the market, but since that time there has been a gradual recovery and the amount outstanding at the end of 1924 was over $800,000,000. The figures thus far in 1925 show an amount of financing through the bill market substantially larger than 1924.

Perhaps the size of the bill market may best be realized by comparing it with the commercial paper market. The commercial paper market has been in existence in this country for more than fifty years as a well-recognized means for commercial financing. In recent years the Federal Reserve Bank of New York has undertaken to collect figures for the volume of commercial paper outstanding and to that end has received each month reports from 26 of the dealers who handle a large percentage of the amount of paper sold in this country. These figures show a total of about $720,000,000 of paper outstanding at the beginning of September 1925. Allowance should also be made for about 10 per cent, or $72,000,000, additional handled by dealers not reporting. So, as nearly as we can estimate, the amount of financing now done through the bill market is about equal to the amount carried on through the long-established commercial paper market.

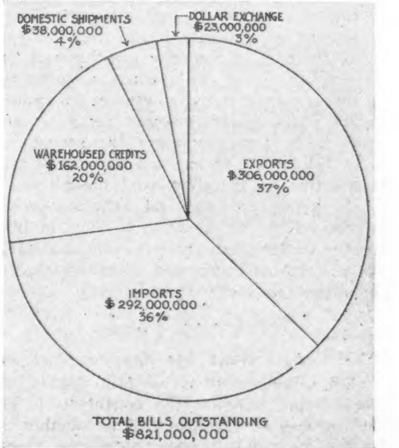
Another interesting comparison may be made between the size of the bill market in this country and the size of the London bill market, which has been for many years the recognized center for financing world trade. Before the war it was estimated by a number of competent authorities that there were currently outstanding through the London market something like 325 million pounds sterling of bankers' bills, or a little over 1½ billions of dollars. Since the war the amount of bills in the London market has been smaller, partly due to the fact that many transactions formerly financed in sterling are now financed in dollars. Mr. D. Spring-Rice, of one of the important London discount houses, has estimated (*Bankers Magazine* [London], March, 1923) that in January, 1923, there were only about $800,000,000 to $900,000,000 of sterling bills outstanding.

So we see that the bill market in the United States in the few years of its existence has grown to a position of real importance, not only in the money markets of this country but in fact in the money markets of the world. We may then appropriately ask what the results of the establishment of this market have been for trade and for finance.

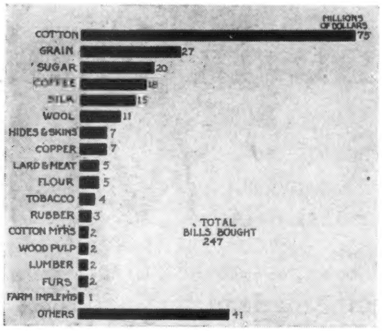
Who Uses Bills

BANKERS acceptances are used primarily to finance the movement of exports and imports, although large amounts are also drawn against goods held in warehouses. This is illustrated in diagram 2, which shows a classification of the general purposes for which bills outstanding at the end of last year were drawn.

An investigation recently made by the Federal Reserve Board enables us to say still more precisely how bills are being used to finance trade. The board has recently completed a detailed classification by



2—Transactions financed by the bills outstanding at the end of 1925



3—Farm products rank high in the list of commodities the movement or storage of which was financed through bills purchased by the Reserve Banks in the spring of 1925

commodities of all the thousands of bills purchased by the Federal Reserve Banks in March and April of this year. These bills purchased by the Reserve Banks may be considered as representative of all the bills outstanding. The analysis shows that more than half of these acceptances were drawn to finance the movement or storage of American farm products. A large part of the total was drawn to finance the export or storage of a single commodity—cotton; the second largest commodity was grain; then came bills drawn to finance the movement or storage of sugar, coffee, and silk. Diagram 3 shows the figures in detail.

The type of transaction financed through the bill market is in large measure different from the trade activity financed through the commercial paper market. As contrasted with the figures shown in diagram 3, it is estimated by the National Credit Office that about one-third of the concerns using commercial paper are in the textile industries, while the next largest groups deal in foodstuffs, metal, leather, and lumber. The commercial paper market generally tends to finance domestic manufacture and trade, whereas the bill market finances more largely the movement of raw materials and foodstuffs, and particularly their movement in foreign trade. Commercial paper is issued against the general credit of the concerns using the market, whereas each banker's acceptance represents specific commodities in storage or transit. From these differences there arise interesting differences in the activity of the two markets. Financing in the commercial paper market is rather evenly distributed throughout the year but tends to be most active in the spring or early fall, when spring and fall trade are most active; on the other hand, the bill market is highly seasonal and experiences its largest volume of financing in the late fall and the winter when the movement and storage of crops is largest and when the largest exportation of cotton is under way.

Service to Trade

THE most direct and obvious effect of the establishment of a bill market in this country has been its benefit to those who deal in the commodities listed in diagram 3. The bill market furnishes a more satisfactory means than has before been available for financing the movement of these commodities.

Domestic transactions now handled through the bill market were previously financed largely by direct loans at banks frequently with some difficulty and at high rates. Through the bill market cooperative marketing associations and cotton and grain dealers are able to tap the supplies of funds in the central money markets instead of relying upon local banking facilities.

For example, the New County Farmers' Association desires to hold 2000 bales of cotton in storage for ninety days before selling. In the early fall when demands for funds for picking and transportation are heavy, the local New County banks may not be in a position to make the required loans on the cotton, even at high rates. But acceptance credit secured by the cotton in independent warehouses can be obtained from one or more well-known accepting banks. The Association draws drafts on these banks payable in ninety days and takes them to the banks, together with the receipts of the storage warehouse, and the banks write "accepted" across the face of the drafts. These banks thus become liable for the amount of the drafts after ninety days and hold as security the warehouse receipts. For their service and the loan of their credit the accepting bank charges about 1 to 1½ per cent per annum. The Association holds accepted drafts, which may be sold readily in the nearest money center at a discount today of about 3⅝ per cent per annum. Thus the Association obtains for its members the immediate use of funds at a moderate rate. Without the bankers acceptance the funds would frequently be difficult to secure at any rate. The acceptance is a means of breaking down barriers between country districts and central money markets.

For the exporter or importer the American bill market is a great convenience. Formerly it was usually necessary in financing export and import transactions to make arrangements to draw drafts on some London bank. The trader had to take the risk of loss on fluctuations in sterling exchange, or else incur the expense of buying forward cover. The London bank collected the commission and the discount. It is now possible to carry forward the whole transaction with an American bank. There is no risk of exchange and the American bank earns the commission and discount formerly collected by London.

Who Buys Bills?

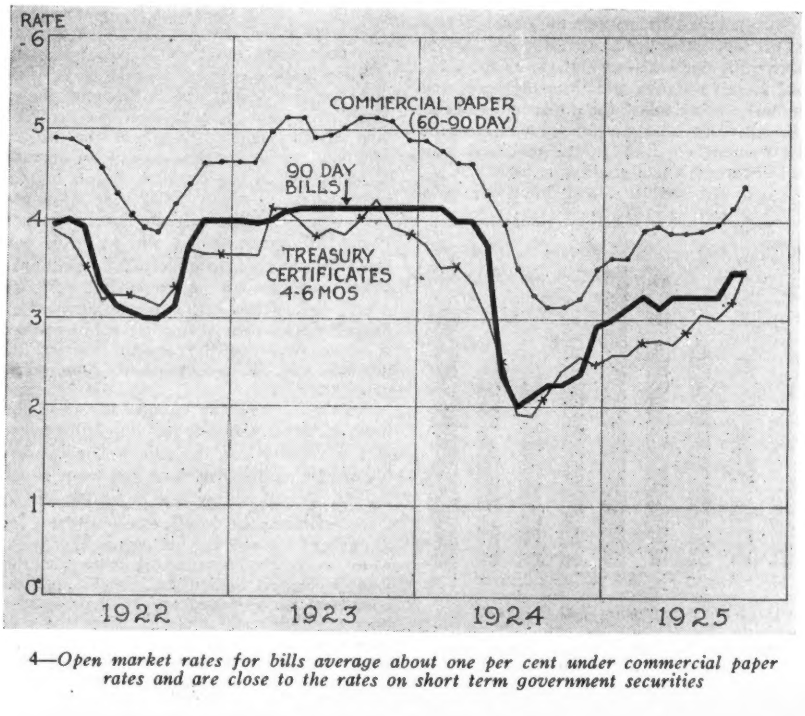
THE advantage of the bankers acceptance to the business man or farmer whose transaction is financed is perhaps more obvious than the advantage to the buyer of bills. Why should anyone buy bills at 3½ per cent when he can buy commercial paper at 4½ per cent or get 4½ to 5 per cent in call loans? The answer may be found in an inspection of the safety and convenience with which funds may be employed in the different short term money markets.

We now have in this country four markets in which surplus funds may be employed for short periods:

1. Stock Exchange money market.
2. Commercial paper market.
3. Treasury certificate market.
4. Bill market.

The first two of these markets have been here for many years; the latter two are developments of the past ten years. Generally the rates in the first two of these markets are near together and about one per cent above the rates in the third and fourth. The Treasury certificate and bill markets justify low rates in two particulars. First, they offer unusual security. The Treasury certificate is a government obligation. The bill is an obligation of a bank of recognized standing. Second, funds placed in the cer-

(*Continued on page* 386)



4—Open market rates for bills average about one per cent under commercial paper rates and are close to the rates on short term government securities

A Code of Ethics for Bankers

By W. R. MOREHOUSE
Vice-president, Security Trust & Savings Bank, Los Angeles

With the Golden Rule as the Principal Foundation Stone, Code Should Be Developed to Serve as Guidepost to Mark Way for the Conduct of Every Banker. Three General Relationships to be Covered. Certain Underlying Principles Set Forth.

ETHICS or moral standards are as old as civilization, in fact, civilization is based largely upon written and unwritten codes of ethics. Men of primeval days had their standards of principles. Assyrian bankers 1000 B. C. were not without a code of ethics. Codes are everywhere in evidence today, not only among the law abiding, for even criminals have certain standards of conduct as between themselves.

Regardless of who the individual is or in what walk of life he may be found, he has a code of ethics. To a large degree he conducts himself in relation to others according to his interpretation of what is an honorable and just procedure in each case.

Within recent years the American Bar Association has adopted a written code which is a collection of the ethical principles of the legal profession as they have been developed through the ages. The medical profession has its code, and so we find that it is unethical for one physician to take a case being treated by another except upon the invitation and approval of the attending physician.

Bankers Act Individually

ALTHOUGH bankers have been slow to adopt a written code of ethics no one can gainsay that they have to a large degree conducted themselves according to a high standard of business principles. But thus far each has acted individually according to no definitely stipulated code of principles but individually according to his understanding of the ethics of his profession. While there is little room for criticism of his conduct, a period in banking development has been reached when some thought might profitably be devoted to the formulation of a standard of principles as a universal code for the guidance of all bankers.

The high pressure of modern banking, accentuated daily by keen competition for new business and for social and commercial prominence may well serve to emphasize the importance of a written code of banking ethics for universal use.

To formulate such a code is a task calling for the cooperation of all members of the banking fraternity. The principal foundation stone unquestionably should be the Golden Rule, and the keystone in the arch of this structure should stand for confidence among men.

This code should constantly serve as a guidepost marking the way for the conduct of every banker. It should insure to all with whom the banker comes in contact a square deal. Guided by this code a banker's conduct should be such as to inspire confidence in him on the part of others, and through him, confidence in banking practices. It should be instrumental in maintaining at high levels a due regard for the honesty and integrity of every banker.

It need not necessarily include minor details of banking conduct. It should, however, include all of the major subjects with an earnest recommendation that directions be observed to the letter.

Addressed To All Bankers

THIS banker's code should not be addressed to "Whomever it may concern," but to every banker individually and without exception. In order to make its intent and purpose readily and fully understood it should be divided into sections and each section addressed to the various relationships between particular groups or classes, and the true relationships should be set forth.

Most important of all would be the section devoted to the relationship of banker to banker, next in order would come the section devoted to the relationship of banker and bank patron. Another important section would be the one treating with bank officer and bank employee. Still other sections might be added as the code is developed. But, as a beginning, it would seem advisable not to undertake to cover all of the groups, and for this reason, only three will be considered in this article.

Naturally, with so many different groups to consider, a full and complete code will be of gradual development. If it is to represent the views of the banking fraternity it must begin in a small way and gradually expand until it includes the entire field of banking activity, as far as it is possible to make a code universally acceptable to all bankers. This means that bankers from every section of the country should be invited to make recommendations as to the contents of the proposed bankers' code of ethics.

While there are doubtless a variety of principles which eventually will be enunciated under the various sections, there are certain principles which are better examples of what are unethical practices than others, and because bankers are more familiar with them than others less frequently used, I will refer to them by way of examples, and suggest that they constitute the first step in the formulation of a universal written code of ethics for bankers.

As Between Bankers

ANTAGONISTIC competition between bankers for business, and jealousy over public and financial prominence in the eyes of the world, are responsible for many unethical practices, often unintentional and thoughtlessly exercised, but nevertheless unethical. It is not uncommon to find cases where bankers in their zeal for new business overstep ethical bounds. Perhaps the greatest offender in this class is the bank solicitor for new accounts. As he is out to make a record for himself, and a fat commission as well, the temptation to pass remarks reflecting on the standing of other banks is ever present. If the prospect fails to respond sympathetically to the solicitor's appeal the temptation to overstep ethical bounds is to some almost irresistible. At such times the solicitor indirectly, and frequently directly, charges that the prospect's present bank is so conservative that it leans backward, that it does not care for the small depositor, that its lending policy is cold blooded, that its service is poor, and in extreme cases, prospects are advised to divide their accounts for the reason that it is not a good plan to "keep all of their eggs in one basket," which is a suggestion that their present bank may fail.

Even in those cases where the stability of a bank is not assailed or its service belittled, any deliberate proselyting of the customers of other banks by unfair and high pressure methods should be set down in this code of ethics as being unethical, and the word unethical underscored.

Insinuations of a damaging nature against the character of another banker, or an attack upon the reputation of another bank should be listed as unethical, except, of course, in the case of fraud and defalcation, and even in such cases it is inadvisable to refer to matters of this kind unnecessarily, as in doing so public confidence in all banks is weakened.

Agreements Should Be Kept

BANKERS in the same general locality often enter into agreements regulating banking hours, exchange, and collection charges. These agreements are not "scraps of paper," but are made in the interest of sound banking, and are made to be kept without violation. Yet it is not uncommon to find signers to these agreements who do not even hesitate at breaking them under pressure, especially if by breaking them their bank gains an advantage. A violation of these agreements, which have been made in good faith, is certainly unethical as be-

tween bankers, and the proposed code of ethics should cover this point in no uncertain terms.

In many cities bankers are grouped together in duly organized associations of various kinds and for various objects. These associations by vote, according to their by-laws adopt rules for the guidance of their members in the conduct of their business. Because a member votes with the minority, does not justify him in sidestepping rules regularly adopted by the vote of the majority, and yet, infractions of rules are not uncommon on the part of those who failed to secure a majority vote for their cause. Some bankers assume that because they opposed the adoption of a rule that they are justified in not living up to it. I have heard bankers remark that because they opposed the adoption of a rule and were never in favor of it, that they were not bound by it. Others have said that they could go just so far with a certain thing and keep within the rules of the clearing house association, at least, without openly and flagrantly violating the rules. In my opinion bankers should not only live up to the letter of the rules of their association but live up to the spirit of them also, and any infraction, although it be a minor one, should be regarded as unethical.

As between bankers it would be unethical for a banker having dismissed for just cause a member of his staff or an employee to furnish the dismissed person with a letter of recommendation, which letter implies that the bearer is a desirable person. Too often bankers have been influenced to employ clerks on the strength of letters of recommendation written by banks, when such clerks were not only incompetent, but also untrustworthy and undesirable. Because of this situation, our code of ethics should be very plain on this point.

As Between the Banker and His Patrons

THE principal objective of a code of ethics between the banker and his patrons should be to inspire implicit confidence in their dealings, the banker to have full confidence in his patrons, and patrons to feel that their banker will not take advantage of their ignorance and lack of business experience, but will fully safe-guard their interests.

As the relationship is one of trust and confidence it should be clearly set forth in our code that it is unethical for a banker to disclose to an inquirer any information as to his customers, except upon written request from them to do so. Even to intimate that the person inquired about is a depositor, should be regarded as being unethical, except, of course, upon the depositor's orders. Too many attachments of bank accounts are being filed today as a result of the disclosure of an account on the part of bankers. Too many shrewd lawyers are getting this information by asking for the address of a certain person whose account they are seeking to locate, when it is not the address they want, but to know if the person is a customer of the bank, and the giving of an address discloses that fact.

As bank depositors trust their banker to treat them fairly, it would be unethical for a banker to meet the unwarranted and undeserving demands of certain customers for special favors, if he does not voluntarily offer the same benefits to other equally valued customers simply because they do not demand them. For example, it is unethical for a bank to pay 4½ per cent to a comparative stranger in order to get his account, when it only pays 4 per cent interest to its old depositors whose business is equally valuable, and who rely on the bank voluntarily to give them every advantage which it has to give without demanding it under threat to close their accounts. It would be unethical for a bank to reduce its lending rate in order to get a new commercial account when it is charging its old customers who are equally valuable a higher rate. The conclusion then is, that the granting of special favors as an inducement or bait for new depositors, which favors are not generally extended to old depositors, is unethical banking.

This code should clearly set forth that it is unethical for a banker to sell his customers investments which he would not buy for himself because of the uncertainty of income, and ultimately, the uncertainty of final payment, unless the customer of his own initiative requests such investments. It would also be unethical for a banker to sell to his customers holdings in promotions in which he is to share in the profits, if any, or to sell interests of any kind on commission, but in promotions in which he has not invested capital because of the uncertainty of the return of the principal. It would be unethical for a banker to recommend to his bank loans in which he is interested, if he would not favor the making of such loans on their merits.

According to our bankers' code of ethics it would be unethical for a banker to use the information contained in a customer's financial statement for any purpose, except that for which the information is furnished, or to misuse the information disclosed by a customer's account. It would be unethical for a banker to furnish a list of the names of his customers to any person or number of persons engaged in the financing business, or in real estate, or insurance, or promotions, or for that matter, in any line of business.

As Between Bank Officer and Bank Employee

THIS section of our proposed bankers' code of ethics should be formulated with great care as it affects the relationship of officers and employees, and should serve as a guide to better banking behind the counter. It should be so constructed as to make it a great confidence builder within the organization—a great loyalty builder, and a clarifier of what is the true relationship between bank officer and bank employee. It should do even more than this, for it should point out what is honorable and what is dishonorable in their dealings with one another.

For example, it should outline a course of procedure that would be proper in cases, where for instance, the relationship between bank officer and bank employee is terminated Unless for good cause, it should be regarded as being unethical for a banker abruptly to dismiss from his services an employee without paying him at least two weeks' advance salary. And where it can be avoided,

J. E. Huntoon, president, Peoples Bank, Sacramento, president, California Bankers Association

prior notice of at least thirty days should be given in lieu of advance salary, thereby enabling a deserving employee to make arrangements for another connection while still employed, which, of course, is much easier to do than after the relationship has actually been severed. It would be just as unethical for an employee, except for just cause, to resign his position without first giving his employer at least two weeks' notice, and if possible thirty days' prior notice. It would be unethical for an employee for any reason to disclose any information regarding his customers, except to those rightfully entitled to it, or upon order from the customers. The making of a list of names and addresses of his customers and passing them out to others would be regarded as one of the most serious infractions of our code of ethics.

Conclusion

FROM this brief sketch of the proposed bankers' code of ethics a general idea may be gathered as to the nature of the subjects to be covered. The number and scope covered would, of course, greatly exceed the limited number here outlined.

Printed in a convenient size leaflet, the code would prove helpful to every banker, and especially to those who are coming up through the ranks, and to whom what is ethical and what is unethical in banking is more or less of a guess, there being no written code to which beginners can refer for guidance.

And finally, when the code has been well developed and it merits the endorsement of the American Bankers Association, let it be adopted as the universal code of ethics for bankers in America.

Convention Calendar

Dec. 2-5—Investment Banks Assn. of America, St. Petersburg, Fla.

Bankers' Acceptances in the Mexican Sugar Trade

By FREDERICK SIMPICH

Planters Below the Rio Grande Able to Obtain Money at Low Rates of Interest and the American Banker Is Adequately Secured by Self-Liquidating Paper. The Three Steps in the Use of the Bankers' Acceptance. A Real Stimulant to Agriculture.

THIS is the story of a sugar plantation in Mexico, and its use of bankers' acceptances.

I write of the American-owned United Sugar Companies, S. A., of Los Mochis, Sinaloa. It will be easier to see just how bankers' acceptances became so useful to this sugar plantation, if first we know something of its scope and operating methods.

At present the United Sugar grows about 15,000 acres of cane. Also it buys cane from smaller, neighboring planters who grow cane but operate no mills. It employs about 3500 men, and owns and operates its own standard gage plantation railway as well as mills, refineries and distillery.

It owns a ranch and thousands of cattle; it slaughters these to feed its own workmen, and tans the hides to make harness for its 3000 work horses, mules and oxen.

It builds and runs its own schools, and its private hospital treated 28,000 cases last year.

To its employees it has given polo fields, golf courses and other playgrounds. To all its workers it gives free life insurance, and to many it furnishes free homes. Yet, less than a generation ago, much of the land it now farms was a desert waste, empty of all life save cactus, coyotes and owls.

Makes 25,000 Tons

THIS now huge self-contained plantation has grown from an original cash investment of only about $100,000 to a property with assets appraised at about $15,000,000. Now, in an average good crop year, it makes 25,000 tons of sugar.

It is the only plantation in the world, it is said, that completes—on its own premises—the whole process from cleaning wild land for planting cane down to packing cube sugar in fancy two-pound lithographed packages. Here cane growing, grinding, sugar making, refining, and finally the packing of both granulated and cube sugar in small fancy packages is completely accomplished.

To get the facts for this article I visited the plantation and interviewed its president, Benjamin F. Johnston.

"When we started as sugar planters down here in 1893," said Mr. Johnston, "there were no railroads, but, as the plantation lies near the sea, we depended on ocean steamers which then called three times a month."

"In those days, as there were no banks on the West Coast of Mexico, the large French, German and Spanish trading houses were the only sources from which money or credit could be had. In our part of Mexico, checks or drafts were then unknown. Payments were made either in kind, or in gold or silver coin—which had to be brought by steamer from distant ports, like Mazatlan.

"Slowly, and very gradually, in order to avail ourselves of the local money which they took in at their stores, we educated the neighborhood merchants to accept drafts on commercial houses located in the larger cities of the West Coast.

"This operation, however, was long confined to Mazatlan and Guaymas. For years no one would take a check on the City of Mexico, or on any city in the United States, at any rate of discount whatever. All this resulted in great inconvenience and very high costs.

"But, as the country developed, and particularly when the Southern Pacific Railroad of Mexico was built into this West Coast region, small local banks began to be established. Even the large Mexico City banks opened agencies in Mazatlan and Guaymas. This led to the general acceptance of checks as a means of trading, to pay for goods, to make exchange, etc.

Hard to Get Cash

"BUT it was still hard to get enough actual cash to meet payrolls and other necessary cash disbursements. Such money usually had to be shipped in by express, being paid for with drafts on outside banks.

"Interest rates were consequently high. Credit was very limited. The amount granted was usually based largely on the moral character and general reputation of the borrower. Specific security was also unknown. All this, of course, limited the financial facilities of both commercial and industrial concerns.

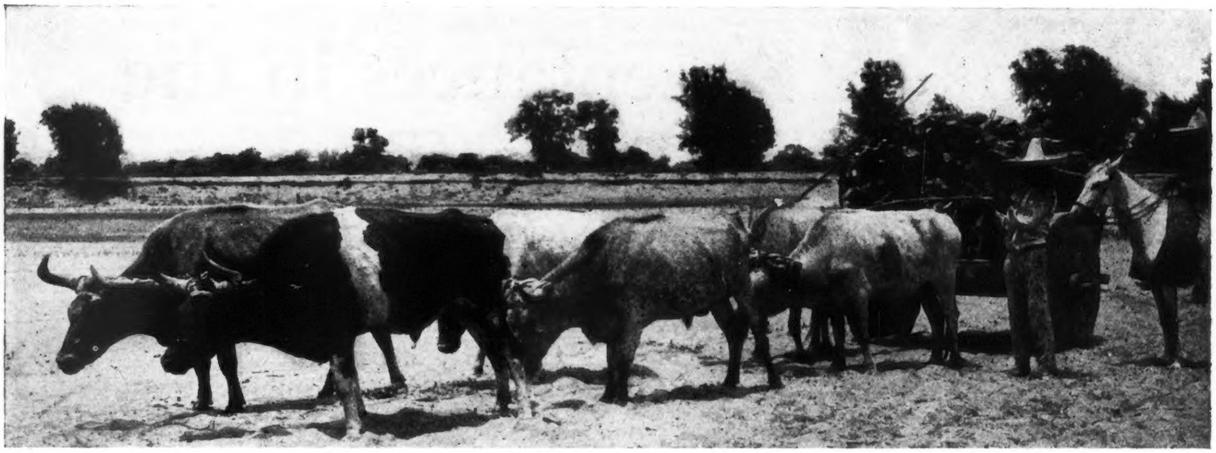
"Yet, while interest rates were high, they were not exhorbitant to "Class A" concerns when you consider the time and the country. From 8 to 10 per cent was usually paid, but we considered ourselves fortunate to borrow money even at those rates.

"In 1911 both railway and water traffic were interrupted by revolution. All banks and most commercial houses on the West Coast closed, so that all kinds of industrial and financial operations became exceedingly difficult. Nobody could get any money. The United Sugar Companies, though it never ceased operations, was forced to adopt many expedients to get rid of its sugar. It even exchanged sugar for goods. When trade routes to the border were open, it shipped sugar to the United States; when there was communication with the interior of Mexico, it sent its sugar there to be sold, but payment in advance was always exacted before the sugar was shipped.

"Because of these conditions, we began to store more and more sugar in warehouses at such American border towns as Nogales and El Paso. We would hold it there and re-import it into Mexico when the market there demanded it. But we always got the cash in advance before we loaded the sugar on the cars. In other words, the whole financial and credit system of Mexico was wiped out by that war. Nothing remained but to barter, or ask for cash in advance. No business could grow much under such conditions.

"It was not till after the end of the World War that Mexican credit began to improve.

The first stage in sugar making—Mexicans cutting down sugar cane.



Oxen hauling cactus fuel on the plantation of the United Sugars at Novolato in Sinaloa.

Even then it was not the banks which gave credit to industry but it was the stronger industrial concerns themselves which gave credit to the merchants. In other words, payment was not exacted in advance. Goods were shipped with drafts against bills of lading, on the usual thirty days' time.

"By a curious coincidence, the acceptance system, as set up by the Federal Reserve Act, was just coming into general use in the United States at the moment when Mexico found herself getting back to normal conditions of political stability and transportation service. Immediately the financial outlook became brighter. With the return of more stabilized economic conditions in Mexico, the reopening of safe trade routes there, and, with this new credit machinery in the United States, our sugar company was able, swiftly, to increase its production.

Then Came Money at Low Rates

"FOR the first time, because of the Federal Reserve Act, large planters in Mexico could obtain money at low rates of interest in whatever sums a business justified, and yet leave the American banker adequately secured by first-class, self-liquidating paper. In other words, a planter could ship a car of sugar over the railway, insured against war, revolution, ordinary risks, etc. Then, by storing this sugar in warehouses along the United States border, or even in Mexico, the planter could draw for 75 per cent of its value by having the warehouse receipt made out in the name of the accepting bank.

"Our drafts are drawn at ninety days sight and sugar is generally sold for cash against documents, and never on more than thirty days' credit.

"As the accepting bank is at all times secured by a specific, individual bag of sugar for a certain sum (say an advance of $5 per bag), and as this sugar is a standard, non-perishable product, standing in the bank's name, the warehouse receipt forms the very highest class of collateral which it is possible to create. Our drafts are, therefore, discounted in the New York acceptance market at the very lowest prevailing rate, in any amount desired.

"Actual steps taken in the transaction are:

First—Our ninety-day draft on some bank with whom we have previously arranged an acceptance credit, accompanied by bills of lading, or warehouse receipt, in the name of the accepting bank. For this acceptance, a small commission is charged.

"Second—After acceptance, we discount the draft in the New York acceptance market, at the current rate, which has ranged from 2½ per cent to 6 per cent per annum during the past ten years.

"Third—As the sugar is sold, the accepting bank releases it from storage, upon payment in cash, or drafts on purchaser with documents, and applies sufficient of the proceeds of the sale to cover the draft it has accepted against that particular lot of sugar, and delivers the remainder, or equity, to us, thus completing the transaction.

Discounted Over $30,000,000

"SINCE we began financing our crop by the acceptance method, we have discounted between $30,000,000 and $40,000,000 of drafts, which have all been, of course, self-liquidated as the sugar has been sold. And to those interested in Mexican business, it may be useful to know that while we have made and sold in our long career something like $50,000,000 worth of sugar in Mexico, yet our total losses on sugar sales by bad debts do not exceed $50,000, or say one-tenth of 1 per cent.

"It is also a remarkable fact that none of our sugar has yet been lost in transit, or by seizure, revolution, etc. One carload was damaged in a collision, but the amount of the damage was immediately paid by the insurance company.

"This is really an extraordinary experience, when you consider the ten years of turmoil through which Mexico passed.

"Today the value of the bankers' acceptance, as authorized by the Federal Reserve Act, cannot be overestimated in its relation to the export of certain Mexican farm products on a large scale; for, although Mexican industrial conditions have improved greatly, this improvement has not been accompanied to an equal extent by the revival of the banking business in Mexico. For this reason large concerns with an annual turnover of, say $5,000,000, still find it difficult to secure adequate local financial facilities, of any sort, without paying rates which average at least 10 per cent, and often much more.

"One must remember that at the end of the Mexican revolution there was not one single solitary bank in existence anywhere in Mexico.

"As I said, there has been some relief in the banking field since the revolution ended because of a slight revival of local Mexican banking. A number of small banks, usually with a capital of from $100,000 to $200,000 came into existence after the war. But they are inadequate to finance the business of even their larger local patrons. Also, they charge high rates of

(*Continued on page 375*)

Chopping cactus to be used instead of coal under the boilers.

Some of the Major Problems

By JAMES E. CLARK

THE thought that there is any connection between economics and spirituality is likely to provoke a lot of impatience in some places in the commercial world. Men are likely to contend that business is a six-day-a-week proposition and spirituality is a one-day-a-week proposition—if golf and the car do not interfere.

Liberty, progress, and continued commercial prosperity working together have brought us to this fine plane of understanding, from which there is a tendency to look down with something akin to pitying tolerance on the strict faith of our forbears.

But whether or not the thought is acceptable, the connection between spirituality and economics is being forced home and it is likely that we shall hear more and more of it in the years to come.

If the connection seems to be a strange one, then it is because we have for the moment forgotten our history. Need we recall that the first settlements in what is now the United States were made because men were so strong in their religious beliefs that home, and material subsistence, were secondary considerations? Need we recall that the spiritual strength of Washington sustained the American cause in the Revolution when the economic side had broken down? Or need we recall that the early association of spirituality with our economic system is attested by the inscriptions on the very coins we carry in our pockets? Throughout our national history there has been an intertwining of spirituality and of economics, with the latter often appearing as a by-product of the former.

Old-fashioned spirituality is not a something belonging to another time and another generation. Now that we have grown wise in our way and prosperous beyond the dreams of avarice we can not put it aside.

The House of Bishops of the Protestant Episcopal Church, in its recent pastoral letter, plainly stated the connection between spirituality and economics:

"We see a widespread revolt against the Christian ideals of morality and purity expressed in much of our literature, advocated openly by some of those whose position gives them a hearing and influence, hailed by many as the advent of a fuller freedom and a larger self-expression, and, in correspondence with this the appalling and still increasing growth among us of divorce.

"We see in our land tens of millions of men and women who acknowledge no connection with religion, and, as a result of this, a large proportion of our children growing up without religious influence, or religious teaching of any sort. Can we fail to see the connection between this situation and the spirit of lawlessness, the startling increase in crime and especially the increase in the number of youthful criminals, which is now challenging our attention?"

But perhaps the testimony and the opinion of church men is not impressive. Let us then hear what business has to say. The largest business organization in the world is the United States Government. The head of this largest business organization is President Coolidge. In a recent address in Washington, discussing the prevalence of crime, President Coolidge frankly acknowledged the limitations of Federal, state and local governmental authority in checking it. Referring to education he said:

"But the mere sharpening of the wits, the bare training of the intellect, the naked acquisition of science while they would greatly increase the power for good, likewise increase the power for evil. An intellectual growth will only add to our confusion unless it is accompanied by a moral growth. I do not know of any source of moral power other than that which comes from religion."

The rejection of spirituality by so many of our people has long been the cause of an enormous national waste.

The financial cost has been placed at $3,000,000,000 per year which may in a sense be regarded as the fine the nation pays each year for its rejection of spirituality. Even that, large as it is, is not the whole of the penalty: There are some things—like liberty—which can not be bought. Nature demands a different kind of coin for which there is no substitute. Similarly there are some penalties which may not be paid in money or goods.

Financially, we may reckon the present cost of the rejection of spirituality but the loss in national character, the loss in individual happiness, in home happiness, the loss which makes accumulated wealth a cause for self-reproach—these too are the coins in which Nature exacts payments as well as in economic goods and they are beyond reasonable calculation.

President Coolidge has called upon the leaders in public thought to use their influence to awaken public opinion to the end that a reformation may be accomplished. (The exercise of police powers alone will not accomplish it.) Bankers—key men in their communities may, if they will, lead in this work and in leading render a direct and immediate service to banking and business.

Advertising as a Combative Agent

THERE are some things in connection with advertising which must be taken on faith. One, for instance, cannot prove the efficacy of the advertising *against* crime, which is being run in cars of New York's transit system.

One of the advertising spaces is devoted to a scene in an electrocution chamber with the laconic statement in letters—"You Can't Beat It." The card is startling amid its bright, and sometimes blithesome, commercial neighbors; it is impressive, even to the point of being awe-inspiring, and from these two conditions the assumption is reasonable that it may be effective—that perhaps it may cast the deciding vote in the mind of some impressionable young man and help him to decisions of safe moral conduct. Less startling, but nevertheless impressive, is another advertisement riding under the streets, which announces that the Police Department is always ready to serve.

These cards suggest a new use for advertising and there is reason to suppose that in the prevention of crime and in promptly bringing to the police information which will help in the department work, advertising done in the agency way and with the agency's knowledge of appeals and reactions, should be effective. If similar advertising on a nation-wide scale, and including all media, were projected, we believe that it would prevent the wreck of many a life and would prevent many a crime. But no one can say in advance that such would be the result—that must be a matter of faith rather than of statistics. But as there are millions spent each year in forms of advertising whose reactions are not readily reduced to statistical bases—and the advertisers are nevertheless convinced they are spending their money wisely, advertising to prevent crime may well be considered as one of the things likely to be useful in stemming outlawry.

It is, perhaps, too much to expect that moral advertising though emblazoned as big and as frequent as the prevailing cigarette posters, will halt the seasoned criminal; or that the more refined crook will be turned from his career by unexpectedly coming across a warning among the advertising pages of his favorite magazine. There is abundant reason to believe that the seeds of this advertising will for the most part fall on fertile ground—and take root!

Inasmuch as advertising of all kinds has produced results in almost every conceivable field, why not put it to work in a large way for the salvation of those impressionable young men, and men out of luck, who need but a suggestion to help them form the right resolution.

When the World War danger threatened there was no difficulty in getting advertising for many things all coming under the general head of national defense. Present conditions likewise constitute a national danger as well as a constant economic drain, and if advertising will help—even in a slight degree—to lessen crime we may take a leaf from our war-time experiences and find the means.

Adult Education

INVESTIGATIONS which have recently been made reveal that the voluntary adult eduction movement is one of immense proportions. An investigation conducted by the Carnegie Foundation shows that approximately 5,000,000 persons between the ages of seventeen and twenty years, and 6,000,000 persons between the ages of twenty and twenty-five years are seeking to advance

themselves by attending schools of various kinds. This urge for more education comes in the main from young people who were not able to continue in school and were compelled to leave school as soon as compulsory education laws permitted them to do so.

Naturally many of those who seek to improve themselves turn to the correspondence schools. There are 350 of the latter in the United States; with approximately 3,000,000 students, and the students pay to the correspondence schools tuition fees amounting to $70,000,000 each year. Some of these schools are good, some indifferent and many are said to exist solely for the revenue they bring to the owners. Ninety-five per cent of all those who enroll in correspondence schools abandon the courses within a few months. The resulting monetary loss is no doubt negligible in comparison with the reaction which must too often follow the disillusionment.

Beyond these schools there are the public evening schools, the association and fraternity schools; the extension and correspondence courses of the universities and finally the opportunity for self-improvement offered by the country's system of public libraries with their wealth of technical, general and character-building literature.

In providing means for adult education the American Bankers Association is in the forefront. Through its Committee on Public Education it is reaching millions of men and women with useful, applicable facts relative to business, and through the American Institute of Banking, is directing the studies of over 30,000 students of banking.

Double Taxation of Bank Stock and Dividends

By THOMAS B. PATON
General Counsel

A NEW and interesting development in bank tax law has grown out of a recent decision of a Federal district court in Missouri in a case involving the taxes of the First National Bank of St. Louis and of other national banks in that city. (First National Bank in St. Louis et al v. Buder, assessor No. 6949 in equity.)

As leading up to a better understanding of the decision it may be well to recall that it was formerly the practice in a few states which had adopted a system of taxation of personal incomes in addition to the general property tax, not only to tax bank shares as the property of the shareholder but also to require him to pay taxes on his dividends as part of his personal income. New York and Missouri were among such states.

The amendment of Section 5219 U. S. Revised Statutes, March 4, 1923, made this practice unlawful so far as national banks are concerned. The Congressional permission thereby given to the states was to tax national banks in one only of three permissible ways, namely, the shares as the property of the shareholder, the dividends as personal income of the shareholder or the income of the bank. From that time on, taxation of both shares and dividends became unlawful.

FOLLOWING this amendment, the State of New York on June 1, 1923, promptly passed a law exempting from personal income tax, dividends received on shares of banks and trust companies as well as on moneyed capital taxable at the same rate as bank shares. The State of Missouri, however, failed to take legislative action until April 18, 1925, when it elected to make share taxation the sole method.

The outcome of this belated action is the decision in question which holds that from March 4, 1923, until ninety days after the adjournment of the legislature in 1925 there was no valid law in Missouri whereby national banks or stocks, or income from dividends on such stocks, could be taxed and that the taxes imposed upon the shares of national banks for the year 1924 were uncollectible.

The reasoning upon which this decision is based is that since two of the electively permissible modes of taxation existed by statute in force in Missouri at the time of the amendment of March 4, 1923, and as but one of them was lawful after the passage of that amendment, one of these statutes cancelled the other until an election was made as to which should be in force; because both were in force equally but one only, because of the effect of the paramount law, could be valid and this one could not be valid until an election was made by the legislature. It is held to be a fundamental proposition that when there are two equally valid statutes of a state in operation concurrently and only one of them is subsequently permitted to be operative by virtue of paramount law, neither statute is operative until there is a subsequent election by the state as to which statute shall continue.

THE Act of March 4, 1923, contained a validating provision permitting the legalizing by the states of taxes theretofore paid, levied or assessed upon the shares of national banks, or the collection thereof, to the extent that such taxes would be valid under the new law and the Missouri Legislature of 1925 sought to validate the assessments of bank shares for 1923 and 1924; but the court holds that as there was no law after March 4, 1923, in Missouri by which stock in national banks could be lawfully taxed, the 1925 Validation Act was retroactive and constitutionally invalid. The state cannot pass a law taxing for past years property which was not by an existing statute taxable for such years.

It was further urged before the court that the Legislature of Missouri made its election as soon as it could do so, that is to say, in 1925 but the court denies this contention. It points out that twenty-two days remained of the regular legislative session of 1923 and that the Legislature might have remained longer in session and holds there was ample time to pass an act of election at the 1923 session.

The decision of the Federal district court will be of peculiar interest to bankers in any other states where a tax situation, similar to that of Missouri, has been in existence.

Official Notice

¶STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, *of the* AMERICAN BANKERS ASSOCIATION JOURNAL, published monthly at New York, N. Y., for October 1, 1925.

¶ State of New York, County of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared James E. Clark, who, having been duly sworn according to law, deposes and says that he is the editor of the AMERICAN BANKERS ASSOCIATION JOURNAL and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

¶1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 110 East 42nd Street, New York, N. Y.; editor, James E. Clark, 110 East 42nd Street, New York, N. Y.; managing editor, none; business manager, James E. Clark, 110 East 42nd Street, New York, N. Y

¶2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given): The American Bankers Association, 110 East 42nd Street, New York, N. Y. (A voluntary, unincorporated association of banks: William E. Knox, The Bowery Savings Bank, New York, N. Y., president, and Fred N. Shepherd, 110 East 42nd Street, New York, N. Y., executive manager.)

¶3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

¶4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

¶5. That the average number of copies of each issue of the publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is —— (This information is required from daily publications only.)

JAMES E. CLARK.

¶Sworn to and subscribed before me this 21st day of September, 1925.

¶(My commission expires March 30, 1926.) [SEAL] Richard W. Hill, Notary Public.

The Outlook Is for Continued Good Business

By GEORGE E. ROBERTS
Vice-President, National City Bank, New York City

Normal Price Relations Now Restored. Scant Prospect of Materially Lower Prices. Net Increase in Volume of True Bank Credit During Past Two Years Small. Country Likely to Have Another Period of Inflation Before Any Depression.

THE business world has been tossing about in the last seven years in the wake of the greatest disturbance ever experienced since business has reached the modern, highly organized state. The war enormously stimulated some industries and restricted and depressed others. It disrupted long established trade relations. It broke down the international exchanges. It disturbed the price relations between different classes of commodities. And, finally, it created such an enormous demand for manpower and drew upon the industries to such an extent that it caused a great and general rise of prices.

The price situation broke in 1920, and although prices had gone up fairly well together in the great rise, they came down in very uneven fashion. Some of them fell back to the 1913 level and even below, and some not nearly so much or scarcely at all. Organized labor resisted wage reductions quite successfully, at least so far as wage rates were concerned, although actual wages have been largely reduced by unemployment. On the other hand, farm products and other commodities produced by unorganized industries took a heavy decline. There has been an agricultural crisis since 1920 in every country of the world, and the effect has been to throw the trade situation out of balance, curtail consumption and cause a great amount of unemployment in the highly organized countries.

The British Government last year appointed a committee to inquire into the state of industry and trade, and the report of this committee has been published recently. It states that the exports of Great Britain in 1923 in physical volume were about 75 per cent of what they were in 1913, but that Great Britain's share of the exports of all countries was not less than in 1913. The trade of the world has been down, and all countries have suffered in consequence.

The Situation at Home

IN this country the situation has been unstable for the same reason. Our industries have been active by spells, but the buying power to maintain them in a state of activity has been wanting. Approximately one-third of the people of this country live on the farms and these people have been short of buying power in recent years by reason of the low prices of what they have had to sell. This situation has changed for the better very much in the past year, and the entire business situation has improved in consequence.

It is contended in some quarters that this improvement is a temporary condition, due to short crops, and that with full crops over the world, prices will decline again. However, short crops somewhere are the usual order of Nature, and the problem of adjusting the supply of farm products to the demand is just what it always has been. If anything, it promises to be less difficult in the future, for the world's population is increasing more rapidly than ever, and there are no more such areas of cheap, fertile and accessible lands to be opened for settlement as there have been in this country in the past. The significant thing is that consumption of the principal agricultural products is close up to production.

> ## Strength of Business
>
> *THE strength of the present situation is in the fairly balanced relationships existing among the industries. The farther we get away from the great disturbance caused by the war, the more stable the business situation is likely to be, except as we are induced by the excitements of prosperity to commit excesses which of themselves produce reactionary effects. We shall have interruptions of that kind and need to be on our guard against them. Cheap money is a great breeder of inflation and extravagance and we are not without symptoms that the speculative fever is abroad in the land. It has insidious ways of getting into the business situation, and overbuilding at a level of costs is one of them. We are an optimistic people, and in times of prosperity always in danger of discounting the future too freely.*—GEORGE E. ROBERTS.

The outstanding feature of the business situation in the United States is this restoration of normal price relations. It corrects the condition which has been the main cause of instability and seems to afford the best basis for lasting prosperity that the country has had since the war.

On the other hand, what uncertain elements are there in the situation? What developments are possible which might throw it out of balance again? It is said by those who have misgivings as to the future that the general level of prices still is very high as compared with that prevailing before the war, that the amount of bank credit in use is greater even than at the height of the boom in 1920, and that these facts are indicative of an inflated rather than a deflated situation. It is suggested that the restoration of industry in Europe means the beginning of intense competition, which is likely to put our price structure to a severe test, and may put such pressure upon our industries as to force both wages and prices down to lower levels.

The intimations of this argument are that we have only about one-half completed the deflation process, that inflation was caused by the abandonment of the gold standard on the part of most of the world, with an enormous use of credit for war purposes. With the war demands eliminated, with all nations coming back to the gold standard and Europe recovering her full industrial powers, the question is asked, why under these conditions the full play of economic forces should not work out about the same results in prices as before the war. In other words, what is to prevent our slipping back to about the pre-war price-level?

Fear of European Competition

BEFORE discussing the price level, I would like to consider the matter of European competition, and its probable influence. Many people are apprehensive of it, and particularly of German competition. It is doubtless true that Germany will cut a larger figure in world trade in the future than it has in those years since the war; it certainly will have to do so if it is to make the reparation payments. But we should remember that Germany was a great figure in the world trade before the war. She was in the full strength of her industrial power then, and it is well to re-

member that even then her imports tended to exceed her exports. In other words, she was buying at least as much as she was selling, she was making as much business for other people as she was doing abroad herself; and therefore was doing as much to support prices as to depress them.

We get into the habit of thinking of other nations as producers and competitors only and of forgetting that they are also consumers and customers. They all consume about as much as they produce and buy as much as they sell. The purchasing power of every people is in its own powers of production, and if the world gets back into balanced trade relations, we may count upon it that although offerings on the market may be greater, demands everywhere will be also greater and consumption greater. The world has been passing through a period of restricted consumption and development, and it is not only possible but probable that a general revival of enterprise and activity will bring about a higher rather than a lower level of prices.

Judging by the price tables compiled in the several countries, prices in Europe, in relation to the pre-war level, are not much lower than in this country. In England the difference is very slight; on the continent prices are lower, but have an upward tendency, and with a further revival of industry probably would come up very soon to the pre-war relationship. The work-day is generally shorter in Europe than before the war, and there is no reason for thinking that European competition is more to be feared now than then.

THERE is no basis for believing that the surplus production of European industries could displace any considerable portion of the production of this country under any possible circumstances. We hear occasionally of Belgian offerings of pig iron or steel in this market, but there are a number of American companies outside the first rank any one of which makes more pig iron or steel than all the Belgian works put together.

The question as to the probable effect upon prices of having all countries restore the gold standard is a very interesting one. It means, of course, that prices are to be in terms of gold and dependent upon the gold reserves and the volume of credit convertible into gold. If it means that the amount of credit outstanding would be contracted to approximately the volume of pre-war times, or that the countries would set up a sharp competition for gold, prices certainly would decline, but neither of these effects are probable. In most of the countries which have not already resumed gold payments efforts will be directed to the stabilization of currencies rather than to the substitution of gold for paper, or to raising the value of the currencies. As to competition for gold, conditions are such that it is not likely to occur.

The increase in banking reserves since 1913 the world over has been quite as great as the rise of prices. According to the Federal Reserve Bulletin, at the close of 1924 the gold reserves of thirty-six countries were 80 per cent higher than at the close of 1913. This increase was partly from newly mined gold and partly by accumulations of gold coin formerly in circulation.

The gold reserves of Great Britain are up about 300 per cent as compared with 1913, those of Holland and the Scandinavian countries about the same; of Spain about 500 per cent. Those of Germany and France are about the same as before the war. Russia has lost a large amount. In Asia, the reserves of Japan have increased largely and in South America the same is true of Argentina. Assuming that international trade is returning to a fair state of stability the countries of western Europe have ample reserves, with the possible exception of Germany, where there is a scarcity of working capital and need for a larger supply of bank credit.

Photo courtesy New York Edison Co.

A night time view of the New York financial district, the Woolworth Building tower looming up highest.

The danger of a scramble for gold is reduced to improbability by the fact that the countries which might be expected to want more are not in position to acquire it in other than very moderate amounts. They are either needing capital in other forms, or have debts to pay to other countries, so that any surplus of exports over imports which they may have for some years to come probably will be absorbed in other ways.

Experience has shown that what is known as the gold exchange standard can be maintained with very small actual holdings of gold, and both exchanges and currencies successfully stabilized by capable banking management. The countries which are low in gold will have to resort to this management and accumulate capital before they can draw gold.

The United States has about 80 per cent more gold than it had in 1913, and besides that the efficiency of its reserves has been greatly increased by the establishment of the Federal Reserve System. The United States could spare a large amount of gold to other countries if there was need to do so, but it is in a creditor position to the rest of the world, making it difficult for other countries to take gold from us. There is no prospect, therefore, that the reserves of this country will be seriously depleted.

It is to be considered that the production of gold before the war was more than sufficient to maintain the price level. According to the Bureau of Labor price tables the general level rose about 25 per cent from 1900 to 1913. It probably would have continued to rise if there had been no war. Following the rise of prices in 1917, gold production declined, owing to higher costs, but it has now recovered about halfway from the low point. In the largest gold field, that of South Africa, the production in 1924 exceeded that of any pre-war year, and costs were as low as in any previous year.

IT appears, therefore, that little reason exists for doubting that the supplies of gold will be ample to maintain the existing price level, at least as far into the future as present calculations need go.

The development of banking facilities and particularly the consolidation of banking reserves in central institutions, and an increasing degree of cooperation between the central banks of the several countries tends to economize the use of gold. The increasing supply of securities known in international markets has a like influence.

If there is nothing in the monetary or credit situation to force a general price-movement to lower levels such a movement is not likely to occur. The general price level moves upward more easily than downward. Most people are willing to cooperate in a rising price movement, provided they can participate in it, but falling prices are unpopular, and cannot go far in organized industry without meeting with resistance. When production is carried on with hired labor as it is in most industries, excepting agriculture, it will be curtailed rapidly when prices fall below the cost level, and that is soon reached unless there is a general reduction of wages, which is not readily accomplished. The present system of prices is so firmly established and its various factors so interlocked that there is no prospect of its being lowered materially, except by influence which would operate slowly.

(Continued on page 387)

Setting Up a Department to Sell Real Estate Mortgages

By T. R. DURHAM
Vice President, Chattanooga Savings Bank & Trust Company

Three Types of Securities May Be Created for Sale to the Bank's Depositors—Certificate of Interest, First Mortgage Certificate or Participation Trust Certificate. Last Method Is Best Because It Is Not Necessary for the Bank Selling Them to Carry Any Reserves.

THE suggestion that banks might add a profitable department by setting up a real estate loan department that would sell the resulting mortgages to the public as investments has created a great deal of interest. This article is a sequel to that which appeared in the last issue—for it tells how a bank may install such a department.

It would naturally appear upon first consideration that it would be a poor policy for a bank to offer a savings depositor a better rate of interest on a mortgage or certificate than is being paid on his savings account. But if such an increase is not only profitable to the bank but a real satisfaction to the depositor, then it is worthy of considerable thought and attention.

Of course, if prevailing rates on mortgages in any given community are practically the same as the rate paid on savings deposits, obviously the discussion ends immediately. But this condition prevails in so few places that the average bank in the average city can with profit to itself and with appreciation on the part of the depositor, offer him a mortgage, or participation in one, at a rate higher than can consistently be paid on a savings account.

In my judgment it is the positive duty on the part of the banker to supply the investment needs of his own depositors, providing the best possible return, consistent with safety and good banking practice. Such a duty is made more pleasant when it can be performed with undoubted profit both directly and indirectly, through the sale of real estate mortgages.

But as it developed that many banks do not even make loans on real estate, it was suggested that the essential forms be reproduced for the benefit of any bank desiring to establish a real estate loan department and for the possible improvement in the detail work of those who already have one.

How to Sell Mortgages

THE practice of selling mortgages to depositors likewise appears not to have been adopted generally. I will not repeat the many reasons for such a policy, except to say that it is a most satisfactory and profitable business. This article will be confined to the detail of a system for disposing of mortgages.

The simplest form of selling mortgages is to transfer the mortgage itself according to the legal requirements. In many states the assignment does not have to be recorded, as the note properly indorsed completes the transaction. In other states a formal assignment is required which must be recorded for the protection of the holder.

In either event, the detail of handling both mortgages and certificates may be greatly reduced for the bank if the investor will leave all papers with the bank, taking a receipt for them for collection. If a borrower desires to prepay a part or all of a loan, the bank can handle the transaction without waiting to communicate with the investor. Interest coupons can be clipped and credited promptly, thus protecting the investor against his own negligence. A printed form such as reproduced about one-half size before, assists in making disposition of the collection when attached to a note or coupon belonging to an investor. It may be used also to indicate to the teller the agreement of the lending officer as to an extension.

City Savings Bank REAL ESTATE LOAN

No......... Due.......... Credit Savings Acct.
Owner..................... No..........
Credit Checking Acct.
Payer..................... Remit........
Advise ......

Memoranda			
	Amount		
	Interest		
Extend Years	Commission		

> ### Widespread Sale
>
> *THE widespread sale of real estate mortgage bonds has been one of the marked developments in American finance during the past few years. The public has invested heavily in them. In the accompanying article, the author tells how a bank can set up a profitable department to provide investment for its depositors by selling to them the mortgages or participating certificates in the mortgages, which it makes. The return is generally higher than the rate paid on savings deposits, but Mr. Durham insists that the new department will prove to be a good venture for any savings bank or a savings department. In this article, the necessary forms needed for operating such a department are given.*

In this connection, it is a splendid policy to credit all interest to investors on the date due whether or not it is paid by the borrower. Nothing pleases an investor quite so much as to receive prompt payment of interest and nothing so readily confirms his confidence in the investment.

It should also be the established policy of every bank to protect any loan that may become in default even though it is sold without recourse. Mortgages are bought by investors largely upon the faith and confidence in the selling institution and such a policy is the best advertisement and business builder available.

Insurance policies should be retained by the bank and expirations protected, giving to the investor for his file a certificate to show the payments.

It would read:

> CITY SAVINGS BANK
>
> THIS IS TO CERTIFY That Policies of Insurance amounting to $........ with mortgage clause attached making loss, if any, payable to the CITY SAVINGS BANK, or its assigns, have been deposited with us as collateral security to Real Estate Loan No. ....
>
> Dated at Blankville, this .... day of .... 192..
>
> CITY SAVINGS BANK
> By..................

Heavy Jacket Desirable

WHEN delivering papers to an investor, a heavy manila jacket should be used, showing on the outside the number of the mortgage, the name of the maker, the total value of the security, the amount of the note, the rate of interest the mortgage bears, its date and maturity, together with the months in which the semi-annual interest is payable and the total amount of insurance. In this way, the investor has a complete record of the transaction on the outside of the envelope and if he keeps the papers in his own box he can locate any particular

mortgage without having to look through several papers. It also keeps all of the papers with any particular mortgage together, so that when they are returned for collection there is no likelihood of some of them being omitted.

This same system should apply when selling certificates. A suggestion for a jacket of this kind is reproduced on this page.

In order to keep a record of the mortgages and certificates owned by each individual investor, a form which has been used to great advantage is reproduced as Exhibit A. As will be noted, this card also provides for the information concerning the disposition of collections and whether or not papers are held by the bank or are kept by the investor. This is quite important in order that the investor's affairs may be handled according to his wishes.

PAPERS HERE............ CR. SAV. % No................
KEEPS PAPERS............ CR. CHECKING %................
REMIT................
ADVISE................
CARD No................

DATE SOLD	NUMBER	MAKER	DUE DATE	AMOUNT	RATE	DATE PAID

Exhibit A—A good form to use in keeping a record of mortgages and certificates owned by individual investors

Certificates of Interest

SOME banks, in order to meet the demand for small mortgages, have adopted a system of selling certificates of interest. Where they hold a mortgage for a large sum and have applications from investors for much smaller amounts, the bank issues a certificate of interest describing a particular mortgage but showing that the ownership has been divided among a number of purchasers. The form below illustrates this system but it does not have the advantages of some other systems which are in use and which accomplish the same purpose.

The principal objection to a certificate of interest is the difficulty in accepting partial payments on mortgages of this kind, because this necessitates the distribution of part of the principal, and as a rule, is objectionable to the average investor. It also necessitates sending out checks for odd amounts of interest, pro rating the interest of a given mortgage among a number of people. However, if the bank does not care to adopt the regular participating certificate or a first mortgage certificate, the certificate of interest is a very good substitute.

No......... $.........

CERTIFICATE OF INTEREST

BLANKVILLE SAVINGS BANK
BLANKVILLE

Has alloted to...............................
a participation of...........................
in a loan / note for...............................
made by ....
....
Secured by ....
....
....
Dated................ Maturity..............
with interest at .... per cent per annum, payable semi-annually on........... and..........

BLANKVILLE SAVINGS BANK.

Blankville, ... 1925. By..............
President—Vice Pres.—Secretary.

NOT NEGOTIABLE.

First Mortgage Certificates

ANOTHER system which has become quite popular in recent years is the placing of a group of mortgages with some other bank, usually an allied institution, and the bank of issue executing first mortgage certificates, using the original first mortgages as security. This is a very acceptable plan as an outside trustee acts as trustee both for the bank and investor and makes it possible to sell first mortgage certificates in small amounts to satisfy the needs of small investors.

These are usually printed up in different denominations, all certificates of the same series bearing the same date, and when sold, accrued interest is collected up to the date of the sale. The principal objection to this form is that a large number of certificates come due at the same time which burdens the detail of either re-issuing them, or it is sometimes inconvenient to provide the cash necessary to retire them, as they are usually direct obligations and must be paid at maturity, whether the loans securing them have been collected or not.

A suggested form of this kind follows:

FIRST MORTGAGE CERTIFICATE

Certificate No....... Series...... Amount $......

Issued by

BLANKVILLE MORTGAGE CO.

For value received, the BLANKVILLE MORTGAGE COMPANY, of Blankville, a corporation, hereby promises to pay to the registered holder hereof, the principal sum of.............Dollars, in lawful money of the United States of America, on the first day of ......, 19.., together with interest at the rate of .... per annum, payable semi-annually on the first days of .... and .... in each year, both principal and interest payable at the office of the BLANKVILLE TRUST COMPANY in BLANKVILLE.

This certificate is one of a series of .... certificates of like form, tenor, date and effect, numbered from .... to ...., both numbers inclusive, and aggregating .... Dollars.

All of said certificates are, without reference to the time when actually issued, equally secured by certain first mortgage real estate notes deposited with the trustee herein named, equal in amount to the total of this series, and which are pledged to secure the prompt payment hereof, according to the terms and conditions of a certain trust agreement dated .... executed by the Blankville Trust Company at Blankville, as Trustee, and which is hereby made a part hereof.

When any one or more of said first mortgage notes shall be paid, the Blankville Mortgage Company agrees to and shall have the right to substitute other first mortgage real estate notes of like face value and equal security.

This certificate is not valid unless certified by the Blankville Trust Company, Trustee, on the back hereof.

BLANKVILLE MORTGAGE COMPANY

By........................

Attest: President.

....

Secretary

TRUSTEE'S CERTIFICATE

The within certificate is one of the series referred to herein, and is secured by $.......... First Mortgage Real Estate Notes, which are held by the Undersigned as Trustee, in accordance with the Trust Agreement herein referred to.

BLANKVILLE TRUST COMPANY, Trustee

By......................

No.____________

FIRST MORTGAGE LOAN

TO

ASSIGNED TO

SECURITY
Property in the City of

Total Value of Security, - - $________
Interest___**per cent. Loan, $**________
Dated________**19**___ **Due**________
INTEREST PAYABLE
EACH YEAR AT
SAVINGS BANK
OR________
Insurance________**Co.**
$________**Expires**________
NEGOTIATED BY
Savings Bank

2½M—12-23

The type of heavy Manila jacket suitable for holding papers when delivered to investor

A Satisfactory Method

ONE of the best methods of selling an interest in mortgages is by adopting the participation trust certificate. This plan provides for the segregation of a group of mortgages aggregating $100,000, or any other amount decided upon, within the same institution and the issuance of a like number of participation trust certificates, using the mortgages as security. These may be issued with or without interest coupons, but the interest coupons simplify the transaction greatly since the investor may clip his own coupons and use them as a check. This obviates the necessity of sending out interest checks semi-annually.

The bank acts as trustee for the investor, and while there is no legal recourse on the part of the bank, the matter of business policy practically dictates that the bank protect certificates at maturity.

One splendid feature of this form is that they may be issued from day to day just like Certificates of Deposit or a Cashier's

(*Continued on page* 381)

The New Mexican Bank of Issue

By ROSCOE WATTERSON

New Banking Order Starts With Unpromising Outlook. Rediscount Facility of New Institution Can Be Extented to Very Reduced Number of Banks With Limited Operations. Government Has Not Reimbursed Banks for Loans Made to Former Rulers.

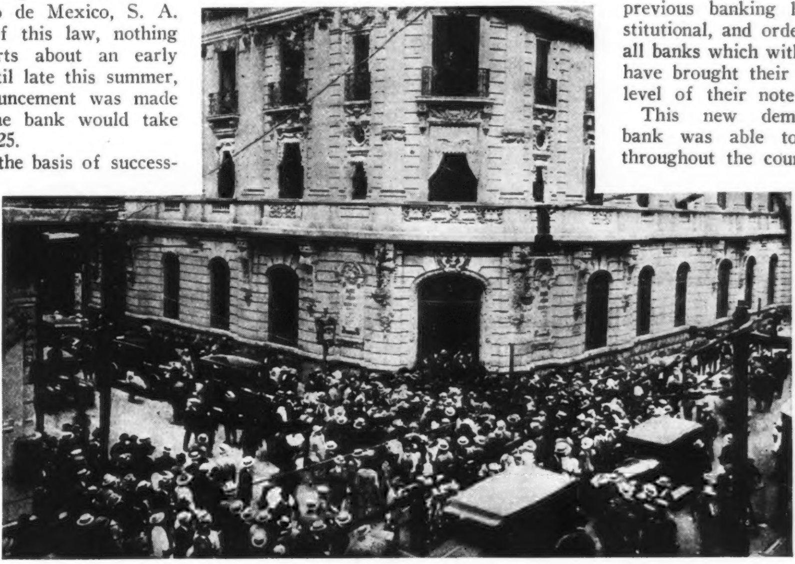
EVER since the promulgation of the Mexican Constitution in 1917, the different rulers of Mexico have spoken of the establishment of a Central Bank of Discount and Issue as the solution of the monetary and banking problem of the country. However, no definite step in that direction was taken until February 15, 1923, when President Obregon signed a decree establishing the basis for the establishment of a single Bank of Issue to be called the Banco de Mexico, S. A. After the enactment of this law, nothing but rumors and reports about an early opening were heard until late this summer, when the formal announcement was made that the opening of the bank would take place in September, 1925.

Accumulated wealth, the basis of successful banking has been practically non-existent in Mexico. Labor, which constitutes the bulk of the Mexican population, is to a large extent satisfied to provide just enough for a bare day-to-day living and is not a producer of accumulated wealth. The middle class, living as a rule on wages, produce little accumulated wealth and the farmers, merchants and manufacturers, who are the principal producers of wealth in Mexico, have been forced by circumstances to send their capital abroad directly or indirectly through foreign banks established in Mexico.

Disruption of Banking System

PRIOR to the revolution, the leading banks, in addition to ordinary banking business, issued their own notes. Any bank could issue notes on obtaining permission from its state or the Federal government, subject to the condition that the value of notes issued must not exceed three times the amount of its capital, and that the value of the note issue, together with the deposits repayable at three days, must not exceed twice the value of its metal reserves.

This system, sanctioned by Acts of 1884 and 1897, was not considered generally satisfactory, and the government showed a strong disposition to consolidate the note issue in one bank and to grant this privilege to the Banco Nacional de Mexico. An attempt to suppress the note issue of the other banks was successfully resisted, so that at the outbreak of the revolution in 1910, there were in existence twenty-four issue banks with an aggregate capital of 118,800,000 pesos, a note circulation of 103,599,414 pesos, and a metal reserve of 86,761,072 pesos, equivalent to 79 per cent of their note circulation.



The new Mexican Bank of Issue opens its doors.

The revolution caused the public to withdraw their deposits which placed the banks in a difficult situation. The rule of General Huerta was disastrous to the banks, owing to the forced loans which he extracted from them. As they were not in a position to make these loans on normal terms, the President authorized them to reduce their metal reserve from 50 to 33 per cent, and to treat as such reserve the bills drawn on the Federal government by generals and state governors. He also decreed that notes should be compulsory legal tender. These measures enormously increased the note circulation and contributed to the depreciation of the national currency.

Carranza, on coming to power, reverted to the idea of a sole issue bank with a monopoly, and in order to clear the way to it resorted in September, 1915, to the simple expedient of creating a commission of investigation, and of declaring those banks of which the reserve, in disregard of the Act of 1897, did not amount to 50 per cent of their note issue to have forfeited their charter. Of the twenty-four banks only nine were in a legal position and the Commission advised the liquidation of the remaining fifteen. But in September, 1916, a new decree was published which pronounced all previous banking legislation to be unconstitutional, and ordered the sequestration of all banks which within sixty days should not have brought their metal reserve up to the level of their note circulation.

This new demand, with which no bank was able to comply, killed credit throughout the country, and forced all the banks into liquidation, subjecting them to abuses and extortions on the part of the Sequestration Commissions. Finally in 1921 the old issue banks were divided into three classes:

(1) Those of which the assets exceed their liabilities by 10 per cent;

(2) Those of which the liabilities exceed the assets by less than 10 per cent;

(3) Those with greater liabilities.

Those of the first class are allowed to resume their former business, except the issue of notes. This class includes the following banks: Nacional de Mexico, Nuevo Leon, Mercantil de Monterey, de Sonora, Occidental de Mexico, Jalisco, Estado de Mexico, Mercantil de Veracruz, Zacatecas, Tabasco, Coahuila, Durango, Minero de Chihuahua, and Guanajato. Those of the second class were required to liquidate their assets in six years, and their liabilities in eight years, before the expiration of which period the government will pay what it owes to them. These banks are the Peninsular de Mexico, Hidalgo, Guerrero and Morelos.

Present Conditions

ORDINARILY, the savings of the poorer classes form a basis for a large part of the financial operations of any coun-

try. Postal savings, savings bank deposits, life insurance and building and loan associations aggregate a large sum for banking operations. In Mexico, these are either entirely non-existent or are on a very small scale. There exists no form of postal savings and the savings deposits of the banks are not important in volume of deposits. The usual disinclination in Mexico to make provision for a rainy day, coupled with the unhappy experiences of depositors in the past, when, as above stated, the government forcibly took possession of the bank reserves which forced many banks into insolvency and again in 1922 when several Mexican and American banks closed their doors with heavy losses to depositors, has resulted in the hoarding of money with a consequent loss to the volume of the circulating media and the risk of theft. As a result, between the risk of loss and that of theft, the average laborer will spend his surplus wages, mostly for drink, on the principle of "having a run for his money."

The operations of the Mexican banks at present active in that country must be carried on largely with their own capital aided by only a small percentage of their deposits, as, owing to the restricted volume and the inflexibility of circulating media (gold and silver), a heavy reserve must be carried to protect deposits. This reduces their operations to the buying and selling of exchange, the making of commercial collections, and to short term loans on quickly convertible security. It also forces them to keep their loans within strict limits to most desirable borrowers, who, in the United States for instance, could readily obtain from three to four times the credit obtainable in Mexico.

They cannot take the lucrative business of loans to the cattle industry which are necessarily long term loans. Agricultural loans are barred by the same conditions, plus the uncertainty of the basic security under the Agrarian Laws. During the transitorial period of giving privately owned lands to rural communities, the titles to rural property are so uncertain in Mexico as to preclude considering them as proper security on which banks may directly or indirectly advance money for agricultural operations, and the recent activities of tenants' associations in the cities, to a certain extent has prejudiced the making of loans having city real estate as their basis.

Another point to consider is the effect of the Mexican disturbances on the morale of the people dealing with banks. Banking transactions are impossible with individuals who show no inclination to fulfill their obligations, in that time loans made to a great number of individuals and firms are, as a rule, never honored when due, for some reason or other, always connected with difficult conditions prevailing.

Banking Field Is Limited

THE funds of private individuals in Mexico are not to be found in the banks of that country and they continue to be used for the development of industry and commerce of other countries. The field of action of Mexican banking is becoming more and more restricted and the decline in production limits the possibility of developing business even under the onerous conditions that exist at present. Bank loans and discounts are now being made on an interest basis of from 12 to 18 per cent per annum, and mortgage loans at from 1½ to 2 per cent per month. Small industries and commercial enterprises which are not able to borrow from banks are being bled by usurers who charge interest on loans ranging from 2½ to 5 per cent per month. Furthermore, the number of banks operating in Mexico at present is exceedingly small for the size and economic life of the country. The Monetary Commission of Mexico has stated that there are about 150 banking houses in the country, including banks, bankers and branches of foreign banks. It is a fact, however, that scarcely twenty are of any material importance.

Another great difficulty in the banking development of Mexico is the inelasticity and nature of the currency. Remittances of funds are both expensive and difficult on account of metal alone being in circulation. The restriction on the circulation of gold is becoming more and more pronounced and silver is being placed in circulation in increasingly greater quantities. The reduction in the circulation of gold may be due to the following causes: The Comision Monetaria is the depository for the petroleum taxes, which are paid in gold, and these are being held to apply to the reserve fund instead of being placed in circulation. The regular inspection of banks, as provided for under the new banking law, compels the banks to maintain a metallic reserve of 33 per cent of their assets. To comply with this regulation there has been, therefore, an active movement to concentrate gold in the banks.

The operations of the old Mexican banks of issue, with two or three exceptions, have been paralyzed since they were closed down by Carranza. The law of January 31, 1921, placed these institutions in a position, from the legal point of view, to liquidate or to renew operations. However, since the payments which the government had agreed to make to the banks in reimbursement of the advances made to the Carranza administration have not been met, the only advantage which the owners of the banks have obtained in virtue of the above law is that of keeping their institutions under their own control. On the other hand, delay on the part of the government to meet its obligations has been the cause of loss to the banks, since personnel has been kept to keep affairs going until new events take place.

Reform Legislative Measures

STEPS toward banking reorganization were not taken in Mexico until the close of 1924, when four important legislative decrees were passed, as follows:

The creation of a Permanent Banking Commission entrusted with the study of banking reorganization and inspection over the present system.

The changing of the status of the Comision Monetaria, the Mexican Official Bank.

The enactment of the new banking law in Mexico.

The enactment of the law governing the Mexican Banks of Promotion (Bancos Refaccionarios).

The Permanent Banking Commission has been charged with the revision of the authorizations under which banks are operating at present in Mexico and it has succeeded in establishing a certain uniformity in the manner of operation and in the reporting systems of the banks. Authorizations for the establishment of new banking institutions have been granted with the consent of the Commission.

The changing of the status of the Comision Monetaria is important because of the character and wide ramifications of this institution. It was established in 1916, having as its most important functions, those of acting as fiscal agent and regulating the currency circulation. The new law fixes the capital of the bank at 15,000,000 pesos, divided into 150,000 shares of which 76,500 shares are owned by the government and 73,500 shares are to be sold to the public. The advisory board is to be composed of seven members appointed by the government with the exception of three which shall be appointed by the private shareholders if 50 per cent or more of the shares have been sold. The Commission is authorized to engage in all banking operations with the exception of the following: Loans to any government; mortgages, except when tendered as additional collateral in time of difficulty; agricultural credits; participation in private enterprises; investments in stocks having gone without dividend payments during five years; loans and discounts with maturity of over 90 days and less than two signatures; purchase of stock in other Mexican banks. Reference will be made to the condition of this bank in another section of this study.

The new banking law of Mexico divides banking institutions into seven classes: (a) The Single Bank of Issue (Banco Unico) and the Monetary Commission; (b) mortgage banks, (c) agricultural banks, (d) industrial banks, (e) banks of deposit and discount, (f) trust companies and (g) banks of promotion.

A special executive concession is required for the establishment of any credit institution. Applications must be accompanied by a cash deposit of 20 per cent of the amount, which, according to the law, the bank should have on hand when it began operations. Concessions may be granted to private individuals but the undertaking must be incorporated according to the commercial code, with certain exceptions. The duration of concessions cannot exceed thirty years from the date of this act.

Minimum capital will be as follows:

Class of bank	Federal District Pesos	States and Territories Pesos
Mortgage	1,000,000	500,000
Agricultural and industrial	250,000	50,000
Deposit and discount.	500,000	250,000
Trust companies	1,000,000	500,000
Promotion	1,000,000	500,000

The Sole Bank of Issue and the Monetary Commission will be established and operated in accordance with special laws.

Mortgage banks will be authorized to make loans for amounts not to exceed 50 per cent of the value of the property given as guarantee for a term not greater than five years and amounts not to exceed 10,000 pesos where agricultural and industrial banks are authorized to operate. Loans outstanding must not exceed twenty times the amount of the paid-in capital. Loans to a single individual or corporation must not exceed one-tenth of the bank's capital when that capital is less than 1,000,000 pesos nor

Condition of the Active Banks in Mexico

ASSETS

PRIVATE BANKS	Date of Report	Cash on Hand	Loans and Discounts	Deposits in Banks	Other Credit Items	Other Assets	Discounts per Contra	Total Assets
Mexico City Banking Corp.	July 15, 1925	1,662,656	3,985,079	1,806,155	1,475,872	101,000	....	9,030,758
Zambrano e Hijos	Jan. 26, 1925	662,087	613,325	619,860	549,339	149,436	654,400	3,248,447
Cía. Bancaria de Paris y México	March 31, 1925	1,650,366	1,384,237	1,309,018	2,210,737	678,380	....	7,232,740
Descuento Español	March 31, 1925	26,233	2,094,711	....	1,689,282	304,090	1,546,934	5,661,252
Crédito Español de México	June 30, 1925	5,663,470	8,129,345	825,772	1,386,096	896,375	6,088,125	22,989,186
TOTALS	....	9,664,812	16,206,697	4,560,805	7,311,326	2,129,281	8,289,459	48,162,383
Branch of Foreign Banks:								
German Banks for South America	July 15, 1925	1,433,221	3,715,156	....	842,989	....	....	5,991,168
Canadian Bank of Commerce	Feb. 28, 1925	2,395,600	6,563,529	2,372,987	1,290,956	....	135,843	12,758,917
Bank of Montreal	Oct 31, 1924	5,788,846	12,781,403	16,420,910	883,549	....	2,816,822	38,516,878
Anglo-South American Bank	Dec. 29, 1923	978,660	1,310,137	....	116,043	17,885	....	2,422,723
TOTALS	....	10,596,327	24,370,225	18,793,897	3,133,537	17,885	2,952,665	59,689,686
		Loans to Government						
Old Banks of Issue:								
Banco Nacional de México	Nov. 30, 1923	13,660,878	118,718,110	18,344,137	21,081,653	2,675,623	32,005,015	174,680,402

LIABILITIES

PRIVATE BANKS		Capital	Reserves	Deposits	Other Debit Items	Other Liabilities	Accounts per Contra	Total Liabilities
Mexico City Banking Corp.	July 15, 1925	1,000,000	383,416	5,015,106	....	2,632,235	....	9,030,758
Zambrano e Hijos	Jan. 26, 1925	....	....	2,198,769	395,278	....	654,400	3,248,447
Cía. Bancaria de Paris y México	March 31, 1925	2,425,000	343,033	4,139,716	324,990	....	....	7,232,740
Descuento Español	March 31, 1925	1,802,346	....	1,290,669	1,021,303	....	1,546,934	5,661,252
Crédito Español de México	June 30, 1925	4,000,000	599,900	11,471,964	400,624	....	6,088,125	22,989,186
TOTALS	....	9,227,346	1,326,349	24,116,224	2,142,195	2,632,235	8,289,459	48,162,383
Branch of Foreign Banks:								
German Bank for South America	July 15, 1925	1,000,000	427,971	4,351,915	211,262	....	....	5,991,168
Canadian Bank of Commerce	Feb. 28, 1925	....	....	12,231,175	475,436	....	52,305	12,758,917
Bank of Montreal	....	....	....	....	....	....	....	38,516,878
Anglo-South American Bank	Dec. 29, 1923	200,000	....	2,036,533	186,190	....	....	2,422,723
TOTALS	....	1,200,000	427,971	18,619,623	872,888	....	52,305	59,689,686
		Notes in Circulation						
Old Banks of Issue:								
Banco Nacional de México	Nov. 30, 1923	32,000,000	20,572,656	24,162,401	78,739,325	....	19,206,019	174,680,402

one-twentieth of the capital when the latter exceeds 1,000,000 pesos. Mortgage banks are authorized to sell mortgage certificates and to make loans or advances for public works and all other banking operations with the exception of those pertaining to banks of promotion and agricultural and industrial banks.

The Agricultural Banks

AGRICULTURAL banks are governed by the law relating to banks of promotion, with the following modifications: (a) Loans may be made only to farmers; (b) terms of loans for the purpose of acquiring supplies to be not longer than ten months and for amounts not to exceed 5,000 pesos; (c) terms of loans for promotion purposes not longer than two years and for amounts not to exceed 8,000 pesos. Agricultural banks may make mortgage loans for terms not to exceed five years and in amounts not to exceed 10,000 pesos. These banks will be entitled to issue certificates in amounts of 20, 50 and 100 pesos for terms not to exceed one year.

Industrial banks are to be governed by the same regulations applying to agricultural banks, except that their loans shall be made exclusively to small industries.

Deposits of banks of deposit and discount callable on demand or within thirty days must be guaranteed by a minimum cash reserve in Mexican gold of 33 per cent. The balance of 67 per cent of the total deposits will be invested as follows: (a) In loans and discounts relating to investments within the Republic for a term not to exceed six months; (b) bills of exchange or drafts with at least two responsible signatures and a maturity of not more than six months; (c) shares, bonds and other securities which may be readily liquidated.

Accounts carried in foreign currencies, payable in drafts drawn abroad, will not be considered legally as deposit accounts and therefore the reserve requirements do not apply to these accounts.

The law regulating the operation of trust companies has not yet been enacted.

Mexican banks will pay the following taxes: (a) Property tax, (b) taxes for municipal services, (c) tax on the annual net profits, (d) stamp tax on loan documents.

The establishment of branches or agencies outside of the state, Federal, district or territory in which the bank is established will be regulated by the concession of that bank.

Banks are forbidden: To acquire real estate other than the buildings required for the transaction of their business; to buy or operate with their own shares and bonds; to mortgage their properties; to participate in the issue of shares or bonds; to engage in the exploitation of mines, metallurgical plants, agricultural or industrial establishments or firms; to enter into partnership of any character; to engage in insurance operations; to acquire shares of any other Mexican banks with the exception of the Sole Bank of Issue.

Regulating Foreign Banks

BRANCHES of foreign banks must comply with the regulations of the commercial code and will be governed by the provisions of the new banking law. They will have the same rights, privileges, obligations and responsibilities as Mexican banks. Operations of foreign branches in Mexico will be guaranteed by the entire assets of the foreign bank. These branches will be subject to Mexican laws and to the jurisdiction of the tribunals of the Republic. Neither the institution nor any of its employees will have the right to diplomatic recourse.

The Promotion Banks (Bancos Refaccionarios) shall be authorized to engage in the following operations:

(a) To make renewable loans of three years or less to cattle, agriculture, mining, industrial and commercial concerns, to be invested in the payment of wages, raw material, supplies, machinery, seed, tools, agricultural implements, cattle, irrigation works or any other expenses incurred in the development of the enterprise for which the loan is made; for administration expenses and for the upkeep of the concerns being developed. Loans must be guaranteed by real estate.

(b) To make renewable loans for one year or less to the owners of farming, cattle, or industrial enterprises for the purpose of purchasing supplies or implements for the operation of such enterprise. These loans must be guaranteed by the products of the estate, raw material, cattle, supplies, machinery and tools.

(c) To issue interest-bearing bonds with maturity of not less than three months nor more than three years.

(d) To engage in all kinds of banking operations except the issuance of notes and those operations which are the special function of mortgage banks.

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Bankers Seek End of Federal Estate and Gifts Taxes

Representatives of American Bankers Association Appear Before Ways and Means Committee of House of Representatives To Urge Tax Reform. General Counsel Paton Asks for Lower Income Taxes for Banks. Ask Better Treatment in Taxing Trusts.

CONGRESS has been urged by the American bankers to wipe the Federal estate tax off the statute books and to repeal the Federal gifts tax.

Appearing before the Ways and Means Committee of the House of Representatives, which opened hearings in October at Washington to sound public opinion on the proposed reduction in taxation, members of the Federal Legislative Committee of the American Bankers Association advocated these two steps as the major changes to be made in tax reform. It was maintained that, in order to be entitled to be a part of the permanent taxing policy of the Federal government, as distinguished from an emergency tax, the burdens should be on a broader base than the estate tax, which fell on less than 15,000 during the past year.

In the field of tax revision, spokesmen for the bankers suggested that the framers of the new Revenue Act give due consideration to two features. Thomas B. Paton, General Counsel, urged that the tax burden on corporations be fittingly lightened along with the anticipated cut in surtaxes and the reduction in the rates on individual incomes. Omission of the provision in the present Federal tax system making the income from a revocable trust taxable as part of the net income of the maker of the trust, was also sought, while the passing of the "Peepin' Tom" publicity provision, which authorizes the publication of the amount of income tax paid by individuals, was asked.

Should Abandon Estate Tax

THE appeal for the abandonment of the estate and gifts tax was made by F. W. Denio, vice-president of the Old Colony Trust Company, of Boston. At the outset, the spokesman for the Association reminded the men, who are to frame the new Revenue Act, that the banks are not subject to either tax and that, hence their position was taken simply to see the public interest served. In their capacity as executors and trustees of many thousands of estates, and in their relationship of bankers to their depositors and other clients, Mr. Denio pointed out, banks have an unusual opportunity for observing the operation of the law and becoming acquainted with the point of view of a large number of people, who are thinking about these very problems. This intimate touch, he declared, has convinced the bankers that the two taxes have no rightful place in the permanent policy of Federal taxation.

"The issue, with respect to the estate tax, is a narrow and simple one," he argued. "In view of the estimated surplus yield of present Federal taxation over Federal requirements and in view of the existence of a sound and well administered income tax law capable of meeting Federal requirements, shall a special form of Federal taxation known as the Federal estate tax, which was enacted to meet a great emergency, be continued longer?"

Pointing out that the 1925 yield from the estate tax was only $101,000,000, Mr. Denio maintained that the government could well afford to give up this sum, because the elimination of this tax would still leave a substantial margin to be applied in cutting down taxes along other lines.

"Whenever an estate tax has been made a part of the Federal revenue program the need arose from a war," Mr. Denio said. "The present tax has been in force nine years. Comparing the present tax with former ones which have been repealed there appears to be less justification for its continuance than there would have been for the former ones.

"We submit that there is no justification for continuing emergency taxation after the emergency has passed. The American Bankers Association is of the opinion that, in order to be entitled to be a part of the permanent taxing policy of the Federal government, as distinguished from an emergency tax, tax burdens should be upon a broad base rather than a narrow one, such as the estate tax, which in the year just closed was assessed against less than 15,000 returns. Retention of an emergency tax tends to make it permanent, regardless of its revenue-producing ability, the financial necessity for its continuance, or the existence of other adequate and more sound sources of revenue.

A Real Tax on Capital

"THE present Federal estate tax represents a real tax on capital. Such a tax is necessarily unsound and unscientific because it tends to defeat itself as a revenue producer. In addition, it cannot be questioned but that such a tax destroys initiative. A man who is devoting his energies to create an estate which will be liquid enough to sustain the enormous burden of such a tax upon his death can not use his wealth in the development of new industries.

"The uncertainty of yield of the tax is another reason against its usefulness. No tax is absolutely settled in its yield but one element of a satisfactory form of taxation is a reasonable degree of certainty of yield. It is conspicuous by its absence from the Federal estate tax.

"If the income tax is adequate for meeting the financial needs, then additional forms of taxation are expensive to administer to the extent that they cost anything, because it is all unnecessary expense.

"We recognize the necessity of adequate returns and the desirability of a broad base of taxation, but the number of returns any taxpayer is required to make should be reduced to a minimum. To that end multifarious forms of taxation should be reduced to a minimum. We therefore favor the repeal of special taxes as rapidly as the financial condition of the Treasury will permit. The estate tax return is, and always will be, a complicated and burdensome one for the taxpayer."

Gifts Tax Unwarranted

THE same reasons that apply to the estate tax may be cited against the federal gifts tax, Mr. Denio stated.

"The gifts tax is much more easily avoided," he asserted. "It represents a diversion of normal transactions. People have made gifts for years. It has been customary for a father to make gifts to his children for many years, and it is an interference with the natural and normal processes which we believe should be allowed to go on the normal way that they have always done, and not in the excitable way that they have done in the last few years, due to the excessive surtax rate and to the high inheritance tax rates.

"We believe in the reduction in the exaggerated income-tax rates; the adjustment, if desired, but not the abolition, of the lower brackets of the income tax, and allowing gifts to take place in the normal fashion in which they have always been allowed to take place until last year."

Lower Taxes on Banks

"WITH the proposed general reduction in taxation, the time is opportune to consider the equity of the corporation taxpayer as compared with the individual taxpayer," Judge Paton argued before the committee. He developed the fact that the half-million corporate taxpayers paid a larger amount than the seven million individual taxpayers and maintained that "the tax on the same amount of income paid by the corporation is much larger than the tax would be if the income were allocated to the individual stockholders of the corporation."

He presented extracts from letters from a small bank in Texas, a larger bank in Nebraska and a very large bank in New

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New Adaptation of Gold Standard in Britain and Germany

By E. E. AGGER
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The Meaning of a Gold Standard. The Unrestricted System and the Restricted System. The Gold-Exchange Standard. Operations of the British and of the German Systems. The Reichsbank's Three Options in the Redemption of Notes.

THE breakdown of monetary standards was one of the most disastrous accompaniments of the World War. The broad outlines of the story have become generally familiar. Today almost everybody knows what inflation means in terms of soaring prices, in disturbance of trade, in the undermining of thrift and in the redistribution of wealth and income. There is no need, therefore to go over this ground again. Interest now centers in the restoration of normal monetary conditions, and to most people this means the reestablishment of the gold standard.

But what is not realized is that the reestablishment of the gold standard after a period of inflation is a difficult and expensive undertaking. It covers wide operations in the international as well as in the domestic market. In the international exchange market gold parities must be restored, while internally the whole domestic price structure must be reorganized. Values must be brought down from an inflated paper to a solid gold basis. This generates friction in home as well as in foreign trade. At the same time gold resources have to be accumulated in sufficient volume to insure the preservation of the re-adopted standard. Getting back to a gold standard after an era of inflation is, therefore, no small matter.

The exact measure of the difficulty and expense of restoring the gold standard depends to some degree upon the form in which this standard is re-applied. The procedure is not necessarily the same in all cases. The forms worked out by the Dawes Commission for Germany and by the British government in the restoration of the gold standard in Britain last April are not the same, and both the German and the British systems differ from that which governs our practice in the United States. As much depends upon the success of the British and German schemes it is important that American bankers and business men understand just what they imply, and how they differ from our own system.

Meaning of a Gold Standard

THE essence of the gold standard is that a country's money be kept at an established *parity with* gold. It does not mean that to have a gold standard a country's money must *be* gold. It is possible to have a gold standard without having an ounce of gold in circulation. The important thing is not the *substance* out of which a money is made but rather the *value* at which it circulates. Hence if this value be maintained at the established gold parity, a successful gold standard may be said to prevail.

The crux of the problem lies then in the maintenance of the stated relationship between money and gold bullion. It will not suffice for a government to declare that a certain relationship shall obtain and then trust to luck to have it work out in practice. It will not work out automatically. Definite steps have to be taken to insure the maintenance of any declared money value in gold.

The maintenance of the standard involves both domestic and international considerations, and a word or two may be said about each of these in turn.

Domestically, there are two aspects to the problem. First, it is necessary to maintain the established relation between standard money and standard bullion. Second, in view of the different kinds of money making up most modern systems, there is the problem of maintaining parity in value between standard money and the other kinds (subsidiary or token money, credit money, etc.)

Maintaining True Relationship

THE established value relationship between gold bullion and standard money is usually insured by making them interchangeable. Thus where gold is coined it is usually said that "freedom of coinage" on the one hand and the "melting pot" on the other will operate to keep bullion and coin equal in value. Where gold is not coined the free exchange of money for bullion, and the free redemption of money in bullion, will insure the same result.

The maintenance of parity between standard money and the other kinds, as for example between gold in the United States on the one hand and silver dollars, "greenbacks," Federal reserve notes and national bank notes on the other hand, is a matter of regulation of supply, of scope of legal tender powers and of possible redemption of all such forms of money in gold. Silver dollars are not specifically redeemable in gold, but they are limited in supply and they are full legal tender. Their value, therefore is unquestioned.

The international aspects of the problem have to do with the freedom of movement of gold both into and out of the country. Gold, it must be remembered, is a world commodity. Its value is determined in a world market. Freedom of movement of gold into and out of a country insures harmony between the domestic and the world markets. Gold is no different from any other commodity. It tends to flow from markets where its value is relatively low to the markets where the value is high. This tendency is obscured by the fact that under the gold standard there is in every country a fixed price for gold. In the United States for example 23.22 grs. of fine gold is always worth a dollar. That is its mint-price. Hence when in the international exchange market the money of one gold-standard country is quoted below mint parity in terms of the money of another gold standard country that implies that gold has a higher money value in the country whose money is above parity than it has in the country whose money is below parity. If the discount is large enough to cover the actual costs of obtaining gold in the country with relatively low money-value and of shipping it to the country of high money-value, gold will be so shipped until the discrepancy in value again comes within such shipping costs. This is just another way of saying that when the foreign exchange rates advance to the gold-export point gold is exported and that when they decline to the gold-import point gold is imported. Complete freedom of movement of gold thus tends to hold a country's money close to its mint parity (i. e. gold equivalent) in terms of the money of all other gold-standard countries.

Different Types of the Gold Standard

THERE are several different ways of maintaining parity between a nation's money and gold in the domestic and in the international market, i. e., there are several different types of the gold standard.

There is first what may be called the complete or unrestricted system. This is exemplified by our own system here in the United States. Under this system there is definite provision for the coinage of the standard bullion and for the domestic circulation of standard gold-coin. Freedom of coinage and the melting pot insure the maintenance of the legal relationship between gold bullion and gold coin. Anybody may bring gold to the mint, in any quantity and have it gratuitously coined at the rate of 23.22 grains of fine gold to the dollar.

Similarly the holder of gold coin may export it or may melt it down whenever he adjudges that the bullion use is to himself more important than the coin use. Hence a dollar and 23.22 grains of gold are always exactly equivalent in value. All the other kinds of money are on a gold-par basis and are so carefully safeguarded from this point of view that in practice it is a matter of indifference to the individual what form of money he receives. Furthermore, there are no restrictions on the importation or on the exportation of gold into and from our domain, and it therefore follows that gold in the United States is in harmonious value relations with gold out in the world market.

There is also, however, what may be called the restricted system. This system is exemplified by the practice in the Netherlands. Under the restricted system there is little or no gold in circulation. Money in general circulation may be legal-tender credit money or some other form of governmental money. Hence there is no provision for the redemption of domestic money in gold coin for domestic circulation or for private hoarding purposes. Gold is supplied for export, however, when foreign exchange rates rise to the gold export point.

Theory of Restricted System

THE restricted system has an interesting theory. Its major principle is that while it is the government's business to keep money at par with gold, it is not the government's business to supply gold for hoarding or for industrial purposes. Hence redemption in gold of other kinds of money is necessary only where such redemption is of significance in maintaining the gold value of money. The restricted system holds that all legitimate domestic monetary needs can be met through the use of money other than gold. But fluctuations in foreign exchange rates are indicative of relative changes in the value of a country's money. As foreign exchange rates go up the home country's money is going down. And if the moneys concerned are all on a gold basis, the fluctuations in the exchange rates imply also a fluctuation in the relative value of gold in the different countries concerned. For example, since the dollar is always equal to 23.22 grains of gold and the pound sterling is similarly equivalent to 113 grains of gold then when sterling is quoted in dollars at $4.90 it signifies that in terms of American money 113 grains of gold has a value of $4.90 in London as against the mint par of $4.8665 over here. As already explained when foreign exchange rates reach the gold-export point the export of gold tends to prevent a further rise in rates and the decline in the value of the home country's money is checked. Redemption of domestic money in gold has therefore a real monetary significance primarily in the foreign exchange market. Under the restricted standard this is recognized, and gold is supplied whenever it is wanted for purposes of export.

The Gold-Exchange Standard

A THIRD system is the indirect, or what is more commonly known as the "gold-exchange" standard. This is exemplified by the system which was provided for the Philippine Islands. Under the indirect or the "exchange" standard there is no provision for the coinage or for the domestic circulation of gold. Money in general circulation is token and credit money. Instead of free coinage of, and redemption in, gold there is substituted a system of buying and selling bills of exchange drawn on a gold standard country. The government supplies domestic money in exchange for the specified foreign bills at a price approximating the cost of importing bullion. In like manner it sells foreign bills for domestic money at approximately the gold-export price.

As with the restricted standard so also it is the theory of the exchange standard that while it is the government's business to maintain parity between money and gold this does not imply the necessity of supplying gold for domestic purposes of a non-monetary character. It is assumed that token and credit money of full value will suffice to meet all legitimate home needs. But fluctuations in the foreign exchange rates imply readjustments in the value of domestic money in gold, hence, in the foreign-exchange market there is a distinct monetary need for gold.

Thus far the theory of the exchange standard runs parallel with that of the restricted standard, but at this point the exchange standard goes farther. It eliminates the actual handling of bullion altogether. Under an unrestricted standard, gold imported in connection with foreign exchange operations is turned over to the mint to be coined into or to be exchanged for domestic money. On the other hand the object of exporting gold is to obtain credits in terms of the money of the country to which the gold is exported. Consequently, if the government stand ready to supply directly domestic money in exchange for foreign bills, and if it maintain adequate foreign credits against which it can offer bills in exchange for domestic money, the effect, so far as the home money is concerned, is exactly the same as if, in the first case, gold had been imported and coined into domestic money, and, in the second case, as if domestic money had been redeemed in gold and the gold so obtained had been exported.

Selecting One Country

ORDINARILY under the exchange standard one country is chosen as the basis of operations. In the Philippines, for example, bills drawn in dollars on the United States are relied upon. The money in circulation in the islands is made up of silver token coins and of paper money. The unit, the peso, is equated to an American half dollar. Whenever the peso goes up in American dollars to a value corresponding to the gold import point the government stands ready to buy all dollar drafts offered at the gold import price. Similarly if dollar exchange in terms of pesos goes to the gold export point, the Philippine government sells dollar drafts to any extent necessary at a price approximating the gold export rate. And in view of the wide possibilities of arbitrage in exchange the maintenance of the value of the peso in dollars means its maintenance in terms of the money of every other gold-standard country as well, and similarly, its maintenance in terms of gold itself.

The great advantage of the gold-exchange standard is that it is economical and flexible. No large investment is necessary to supply gold for domestic circulation. Indeed the government makes a profit out of the issue at gold value of token and of credit money. It earns an interest on its foreign balances and these can be quickly augmented, if occasion requires, through loans.

The New British System

ALTHOUGH Germany under the Dawes plan re-established its money on a gold basis before Britain did, the British system may be taken up first.

The new British system is a form of the "restricted gold standard" described above. Before the war Great Britain had a system like that of the United States, namely, a direct and unrestricted gold-standard. There was free coinage of gold, free redemption of Bank of England notes in gold and complete freedom in bullion exports and imports. In view of the fact that there was no credit money below £5 in denomination the money in actual circulation was largely gold coin and silver token-money. But during the war, through an over issue of currency and through an excessive expansion of credit the pound sterling declined in value and gold was driven from circulation. Similarly, exports of gold were virtually prohibited. Britain went on a fiat paper basis. The paper pound fluctuated in value as low as $3.50. The government itself issued £1 and 10s. notes and these took the place of the gold coins that had formerly been so abundant. The sacrifice of the gold standard was a hard blow to British pride and its restoration has been almost a fetish with the business public.

The present system, based on the so-called "gold standard act of 1925," makes no provision for coining British gold pieces nor, therefore, for redeeming domestic currency in gold coin. The British mint is specifically relieved from the obligation to coin gold presented by any one except the Bank of England itself. All domestic monetary needs must be met with paper currency and with metallic fractional or subsidiary money. The bank is required to purchase gold at the regular rate (£3 17s. 9d. per ounce), but it gives in exchange sterling credits on its books, or paper currency. The law of 1920 which prohibited the export of gold for five years will be allowed to lapse at the end of this year, and until then the bank is given a general license to export gold or to supply it for export at the mint price of £3 17s. 10½d per ounce. But gold supplied in this way is in bar and not in coin form. The bars weigh four hundred ounces and are worth approximately £1700.

It will thus be seen that the whole object is to keep sterling at a fixed value in gold in the international market. The domestic situation must in time conform to this, but in the meantime friction and disturbance ensue. The domestic price structure had adjusted itself to a depreciated paper pound, while now prices, wages and costs generally must be brought down to a gold basis. Labor particularly is offering resistance and the whole industrial situation is disturbed.

In the meantime, however, the government's resolution to restore the pound to a

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Russia's Big Program

By ROBERT CROZIER LONG
Correspondent of the London *Economist* at Berlin

Germany Assisted by American Credits, Is Getting Business from the Land of the Ancient Czars Where the Soviet Government Has an Ambitious Trade Program. Execution Depends Upon Many "Ifs." Peasantry Suffering from "Wares Hunger."

RUSSIA may be a better customer of the United States in her new business year 1925-26, which began on October 1, than she has been at any time since the Revolution. That is her own prophecy; and although the prophecy contains some unanswerable "ifs," it is likely to prove substantially true. If the Soviet official program is fulfilled, Russia may even prove to be a very good customer. The difficulties of selling to Russia are great. But Germany has in considerable measure overcome them. Of her total exports a greater volume goes to Russia and to states which formerly were Russian provinces than to any other single country in the world.

APART from proximity and knowledge of the Russian market, Germany has no advantage over the United States. With exception of foodstuffs all America's staple export products are products which Russia needs. Russia wants cotton, railroad materials, agricultural machinery, motor trucks, and electrical wares. First of all of course she wants credit. Without prejudicing the question whether it is safe to give her credit, it must be said that Europe is increasingly inclined that way. At time of writing, the four German "D" banks are arranging to guarantee 100,000,000 marks for financing exports of machinery to Russia on credit; and many other credit deals are under way.

The United States since the Dawes Settlement was accepted has advanced large sums to German industry, and precisely to those branches of industry which, directly or through their affiliations, produce goods of the kinds which Russia wants.

These American credits enable Germany in turn to grant credits to Russia on goods purchased; and thereby gain for Germany numerous orders, which Russia gives only on condition that she is allowed to pay part of the purchase price later. The recent orders for German (also British) textiles machinery are a case in point. Thereby indirectly Russia benefits from American credit-giving, apart from any American credits to herself. Germany however operates on the sound principle that Russia must pay cash for a considerable part of each purchase. The question therefore, "How much will Russia be able to buy from abroad in the business year 1925-26?" is fundamentally the question, "How much cash will Russia have?"

Inspecting a large quantity of Soviet gold in huge bricks that arrived in London to pay for British goods to be used in Russia.

On this point the Soviet magnates are just now very optimistic. The good crop of 1925 and the very considerable rise in industrial production have given Russia a distinct push forward. "We are on the eve of the biggest export boom since 1913," said Trotsky on September 15. "In fact our exports will soon be 100 per cent of the prewar figure. We shall have enormous intakings from these exports; and we shall have more cash than ever before with which to pay for imports. The year 1925-26 will prove the most important year in the restoration of our foreign trade; and as givers of foreign orders we shall be among the most important countries in the world."

This Russian optimism is based upon statistics. Whether the statistics are correct is not clear. But as the Soviet state has a monopoly of statistics as well as of everything else it is impossible to go beyond them. Both in regard to industry and to agriculture they are flattering. They show a largely increased output of manufactured goods in the business year 1924-25 as compared with 1923-24; and they are backed by an ambitious industrial production program for 1925-26. They show extremely good crops in 1925. The bulk of these crops will be exported in the business year 1925-26. The payments to be received for them therefore belong to the new business year. It is largely with the wheat and rye grown in the present calendar year that Russia's future purchases will be paid for.

ULTIMATELY Russia's production of goods at home is the factor which determines how much she can buy from abroad. Although a crop failure would temporarily compel her to import breadstuffs, it would in the end reduce her general importing. A decline in her industrial output would not compel her to increase her imports of manufactures even temporarily. She would simply do without manufactures as she did in the "Black Bolshevik" years 1918-20. If Russia is to be a good customer of the United States and of Europe, she must first produce abundantly herself.

The Soviet industrial output program for 1925-26 is extraordinarily ambitious. It even assumes the doubling of the output of certain important wares. In normal con-

ditions such a rate of increase would be impossible; but Russia, be it remembered, started from practically nothing in 1920; and even after the production of a particular commodity has doubled in two successive years it may (and usually does) remain far below the pre-war level. Therefore though the promised 50 and 100 per cent increases must be taken with reserve they are not necessarily chimerical. The trouble is that too much paper planning is done. On this matter the Soviet bosses, who claim a liberty of speech which they deny to their underlings, are sometimes edifyingly frank. The *Pravda*, criticizing the "Gosplan's" programs, lately remarked that "If we spend so much energy on minute and elaborate plans, we shall have no energy left for their fulfilment."

In August this "Gosplan," which is the State Planning Board, published a detailed analysis of industrial and agricultural production. It estimated the gross value of production by agriculture, forestry, fishing, and hunting in the (then partly finished) business year 1924-25 at 9150 million roubles. This was at pre-war prices; and it was 71 per cent of the production of 1913 on the present national area. The alue of industrial production, counting only the great mills and workshops which all belong to the state, was put at 3950 million roubles, which is 70 per cent of the figure of 1913. The value of production by agriculture, forestry, fishing and hunting in the new business year 1925-26 is estimated at 11,436 million roubles. The increase is mainly due to the fact that in 1925-26 is included the good crop of 1925, whereas 1924-25 includes the bad crop of 1924. The value of industrial production in 1925-26 (again only counting big concerns) is estimated at 5275 million roubles. This nearly reaches the figure of 1913, which was 5620 million roubles. The whole value of national production in 1925-26, including this time the petty and home industries and every kind of agriculture, is estimated at 18,100 million roubles. That is approximately 90 per cent of the production of 1913.

Raw Material Industries Recovering

RUSSIA'S raw material industries are undoubtedly recovering, though it is doubtful whether they are recovering as rapidly as the Soviet statistics claim. The "Gosplan" puts the gross output of oil, including mineral gas at its oil equivalent, in 1924-25 at 432 million puds (of 16.38 kilograms), as against 562 million puds in 1913. The program for 1925-26 is 521 million puds. It is doubtful whether this program will be realized. All the programs of the "Gosplan" depend for their fulfilment upon large investments of state capital for repair and reëquipment of mills; and in 1926 no less than 1922 million roubles is required for this purpose. As this is equal to three-fifths of the whole budget expenditure it will certainly not be forthcoming. When the grant required by the Baku Naphtha Trust was cut down to half by the unfriendly Finance Commissariat, it was declared that in consequence the output program could not be fulfilled.

Other great industries are in the same way. A very large state subsidy is required for reëquipment of the Donetz Coal Trust mines; and the program, which provides for a 42 per cent increase in production, is partly dependent upon this subsidy. The revival of the coal industry would nevertheless be satisfactory were the mines being operated at a profit. In fact the 1925-26 program foresees the large loss of 20,000,000 roubles by the Donetz Trust alone. It is easy to increase indefinitely the output of almost any industry if losses are accepted as normal. The iron and steel production is more satisfactory. In 1925-26 production as compared with 1924-25 is to be doubled. This project seems less unreasonable when it is added that even after the doubling, the output will be only three-fifths of the pre-war volume. The official figures for pig-iron are (in puds):

1913	1924-25	1925-26
257,210,000	72,971,000	151,300,000

The output of steel it is estimated will increase from 102,000,000 to 182,500,000 puds, and of rolled goods from 75,700,000 to 141,800,000 puds. The iron and steel branch has in fact greatly recovered from the worst point of 1920, when pig-iron output fell to 2.4 per cent of the figure of 1913.

Much Cotton Will Be Needed

THE Russian manufacturing industry of most importance to American exporters is the cotton. It is certain that largely increased deliveries of American cotton will be necessary in the next few years. For while the textiles industry has raised its output very much, it is not yet able to meet the demand. The output of cotton goods in the new business year is to be approximately 33 per cent higher than in the business year just past. This is not impossible. Almost as great an increase took place in 1924-25. The Soviet statistics and estimates which are here given are probably not entirely accurate. But German textiles experts who visited Moscow in connection with the demand for spinning and weaving plants declare that the figures roughly represent the truth; and the large recent increase in America's sales of cotton to Russia confirm the German view. The following figures refer to the cotton industry only:

	No. of Employees	Spindles Operated	Looms Operated	Raw Cotton Consumed, mil. puds
1912	429,630	7,245,000	176,000	20
1923-24	226,654	2,340,000	65,000	6½
1924-25 (program)	307,900	3,493,000	95,000	10¼
1925-26 (program)	409,000	5,560,000	125,000	13½

The picture of recovery so far given is distinctly favorable. But no industrial recovery will, taken alone, make Russia a great customer of foreign countries. Her ability to buy from abroad depends primarily upon her crops. The crops of 1925 were abundant. Except in part of the Ukraine and in four governments of the central agricultural belt no failure was reported; and the population in these failure districts is put at only 2,000,000 which—for Russia —is a trifle. The last detailed report of the grain crop put the yield at 4025 million puds as against 2800 million puds in the bad year 1924; but Trotsky in a subsequent speech put the crop at 4200 million puds; and put the exportable surplus at 600 million puds, or about ten million metric tons, as against a preceding maximum estimate of 480 million puds. The value of grain exports in 1925-26 will, according to the Foreign Trade Commissariat's program, be 448,500,000 roubles against only 72,000,000 roubles in 1924-25. This is the main source from which Russia is to get the exchange which will enable her to fulfill her big program of import of manufactured goods in the coming year.

There Are Several "Ifs"

THERE are several "ifs" here. Great difficulty has been met with in moving the crops. Transport (in particular river transport) is inadequate. Speculators have attempted to prevent the movement of grain towards the ports, hoping for better prices. Peasants show unwillingness to sell, on the ground that even the present stable rouble is of no value to them as long as they cannot purchase manufactured goods.

A still greater obstacle may lie in the price question. If prices are abnormally low, even the fulfilment of the program as regards volume will fail to bring the expected cash. At present prices are lower than when the program was compiled. In Berlin since January last wheat has fallen from 274 to 203 marks per metric ton, and rye from 272½ to 145 marks. Further Germany, which is Russia's natural customer, has just restored her heavy pre-war duties on breadstuffs. If the German government is right in its claim that "part of the duty will be borne by the foreign exporter," Russia will receive for her grain surplus materially less than she expected. With wood the same trouble prevails.

Wood prices in Europe are so depressed —largely as a result of Russia's reappearance in the market—that Sweden and Finland have been obliged to come to an agreement fixing minimum prices, and are even considering a drastic reduction of output in 1926. Russia in 1925-26 proposes to export 140,000,000 roubles worth of wood. This is based on a 40 per cent increase in the export volume of 1924-25. But it is by no means certain that she will realize the whole 140,000,000 roubles.

There are even more troubles. One is the uneconomical system of state trading, a result of which is that the net yield to the Soviet state from its commercial dealings is far smaller than the former net yield to private traders on an equal quantity of goods. The official *Ekonomitcheskaya Zhizn* says quite openly that the cost of handling grain export, is, omitting the transportation charges, fifteen times higher than it was before the war.

The export and import prospect is nevertheless much better than it was in 1924-25. The official estimate is that the Soviet state will receive for its exports 460 million roubles more than in the last business year; and that it will be able to spend a correspondingly increased sum upon purchases

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What Is the Best Type of Bank Building?

By F. S. WETTACK
Cashier, First National Bank of Coffeyville, Kansas

Structure Designed for Exclusive Use of the Bank, or a Modern Office Building Which Will Bring Revenue from Rentals? Things to Consider When the Directors of a Small Town Bank Take Up the Problem of New Quarters. Office Building Costly.

THE objective of this article is to discover and classify the merits and defects of different types of bank buildings. The analysis is confined to conditions in towns having 15,000 to 30,000 population. The word "town" as herein used indicates one within these population limits.

In buildings recently erected in thirty such towns, three types predominate.

(1) A five-to-seven-story office building, with first floor devoted to banking quarters.
(2) A two-story building, with the second floor devoted to rental purposes.
(3) A one-story building devoted exclusively to banking purposes.

Some recent building operations in such towns have given the following results:

equipment, will not have as satisfactory a record as banks in ancient and inadequate quarters.

The relative small cost of office floors after providing the foundation, first floor, roof, vault and fixtures, is one argument for the office type of building. Each additional floor, after providing for the banking room, will entail approximately a one-fifth additional expenditure.

The Message of Safety

THE argument in justification of investing the additional amount in office floors, is usually not based on the attractive net revenue from the offices. The indirect and collateral benefits of the office floors are more frequently emphasized than the direct net revenue.

Stockholders' Investment	Bank Premises and Fixtures	Number of of Stories	Total Resources	Percentage Bank Premises to Stockholders Investment	Percentage Bank Premises to Resources
$592,000	$446,000	6	$5,391,000	75%	8%
328,000	300,000	5	2,850,000	91	10
549,000	200,000	5	5,211,000	36	4
75,000	129,000	2	900,000	172	14
415,000	175,000	4	3,868,000	42	4
287,000	75,000	2	3,000,000	26	2½
531,000	395,000	5	4,100,000	74	9½
400,000	350,000	3	2,771,928	84	14
220,000	213,000	4	3,736,000	97	5½
164,000	244,000	4	2,327,000	149	10½

Have All Chosen Wisely

HAVING erected buildings presenting such extremes in types, height and costs, under the same banking conditions, have all chosen wisely? Perhaps undue emphasis has been given in recent years to presenting a "good front" in all lines of business, including banking. Much of the recent distress in the industrial world was caused by too heavy investment in plant facilities. Many conservative bankers feel that the current heavy investment in bank buildings may have been inadvisable. Providing for anticipated growth of the town and the bank's business, centralizing business about the bank, erecting a monument to the banker, and influencing the town's growth, have frequently been controlling factors in causing town banks to erect office buildings. More frequently the ambition to own the highest building has resulted in an unprofitable office building.

The importance assigned to a fine building is a variable factor in banking success. Frequently banks housed in their own large office building with the finest banking

Every bank desires to speak a message of safety and cordial service. The message of safety cannot be made clear by merely publishing strong statements. An imposing bank and office building speaks a message of safety understood by all.

Good management is more essential to safe banking than the latest type of burglar-proof vault door, but good management always cannot be identified by individuals even of mature business experience. A large massive vault door can be visualized by everyone. Its message of safety can be understood even by a child.

Every bank desires to assist in building its community. Safety providing proper credit facilities for a long period of years may not impress the passerby as much as a fine office building. These and other indirect gains, it is urged, justify erecting the office type of building.

The main battery of argument against small town banks owning office buildings is that such buildings are not profitable. Bankers taking this view assign a minimum value to the advertising and prestige afforded by an outstanding office building. The cost of a six-story office building in a town of 15,000 to 30,000 may be as great as in a larger city, but small town rentals seldom exceed one-half the rates in big cities. Office buildings in cities are conceded to be only moderately profitable. A negative answer is thus given to the question whether an office building in a small town is profitable.

Office Building Disappointing

ONE banker in a city of 50,000, who has had ten years' experience in a twelve-story building, offers the following testimony:

> "The office building is always disappointing from an income standpoint. With our fine twelve-story building here completely filled at good prices, we do not show net earning in excess of 6 per cent, even charging a liberal rent for the use of the ground floor by the bank."

Another banker of very mature experience, in a town of 75,000, which experience includes the last three years in an eight-story building, states:

> "A six-story building, if properly financed, is a great thing for a town. I am satisfied these good bank buildings, showing the confidence of the bank in the community, are a favorable influence upon the growth of a town. On the other hand, they are not profitable investments. They are good, safe investments, at low rates, but not profitable."

Another banker in a town of 75,000, who erected a one-story building devoted exclusively to banking purposes, says in explanation of his decision:

> "We started with the office-building idea but abandoned it entirely as soon as it was shown that the anticipated income would not carry the added cost on even an ordinary interest basis. An office building of this type in a town requires much work and concessions to keep it occupied. At the end of ten years it would begin to depreciate, and the ratio of depreciation would become more marked at the end of each ten-year period. From the foregoing you will see that our decision was based upon merely one of dollars and cents and we believe this reasoning is sound in the average city showing a population of 50,000 and under."

The Hazards

THERE is in a growing town an element of hazard presented by the probable shifting of the business district. While the physical condition of an office building may remain practically the same over a thirty-year period, yet the office revenue may be materially diminished very early by reason of its location decreasing in popularity.

A further element of hazard is in the building becoming obsolete. This is a day

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Babel, Babble and Tax Reduction

By WILLIAM P. HELM, JR.

Main Difficulty in the Way of Tax Reduction Is Lack of Unanimity Among Business Men. Total Cut of $350,000,000 Is Possible But Major Proposals of Conflicting Interests Amount to $1,500,000,000. Expect $5000 Personal Exemption Will Pass.

IF the business interests of the United States would journey today to the site of the Tower of Babel, they would make a profit on the trip. There, it will be recalled, originated the confusion of tongues. Between the Babel of the ancients and the babble of the moderns there is a difference of one letter and many centuries; but neither method nor result has changed with the withering years, though all else has.

Here today, in the shank of the twentieth century, the sons of a thousand Babel-makers are still running around with the same confusion of tongues. They speak with many voices. They raise a wordy confusion. They go their separate ways, each to a different destination.

Yet they all represent American business.

All of which is by way of introduction to the flat statement that our modern American business men have created such a vast confusion on Capitol Hill at Washington within the past thirty days that the whole prospective structure of tax relief to American enterprise stands today in grave peril of collapse.

Why?

The answer is simple. More than one hundred cooks have prepared the broth. Each cook has put his own idea of a perfect concoction into the pot. Each idea is different from all others. And the perfect concoction has become a perfect mess.

All Turn Tax-Cutters

THERE is hardly an industry in the United States, big or little, that has not turned amateur tax cutter. Within the past ninety days there have been, conservatively, 1000 meetings of business groups to discuss tax reduction. These meetings have stretched from Seattle to Miami, from Portland, Me., to San Diego. Amateur tax cutters have met and talked and gassed and fought and resoluted and indorsed until blue in the face. And they have fashioned not less than one hundred Perfect Revenue Bills, each one different from the others.

Having held their 1000 little Babel meetings, they have rushed off to Washington to present the result to the Ways and Means Committee. They have stormed the portals of the committee and snowed it under with their bombardment of various and varying proposals. They have literally swamped it with schemes.

Representing the whole of American business, each group has spoken simultaneously for a little or big segment of American business. Remember! This is American business speaking to Congress on the subject of tax reduction. And how has it spoken? In unity? There has been no more unity among the groups than there is between milady and the cannibals.

Conflicting Claims

NO. American business has spoken to Congress with the tongues of Babel and is continuing so to speak. The automobile men want their particular taxes lifted. The lumber men want another kind of taxes lifted. The manufacturers stand solidly behind still another scheme. The retail merchants have yet another thought to present, and so on.

The sad but inevitable result is that Congress, or, rather, the Ways and Means Committee, has before it a jumbled, disarranged, incoherent set of ideas fallen apart like a puzzle picture. To date the Ways and Means Committee has not been able to get the simple idea, "How Business Wants Its Taxes Cut."

Now it stands inevitably to reason that if the business interests of the United States cannot themselves present a clear-cut idea to Congress on this subject, Congress is going to proceed with its own cantankerous plans. It also stands equally clear to reason that if the business interests could unite on a single basic program, that program would be written into law. When the day comes that group after group files through the committee room saying, "We believe surtax reduction should come first," surtax reduction will come first. But not until then.

The same argument applies to the inheritance tax. If business were to present a solid front for abolition of the inheritance tax, first and foremost, Congress would proceed immediately to abolish the inheritance tax as Act No. 1 of the new session. Congress will respond to the sound thought of the united business of the nation. Coming right down to brass tacks, the united business of the nation includes just about all of us. It is a power bigger than Congress.

Can't Heed All Advice

BUT Congress will not, cannot, heed a Babel of voices. How in Heaven's name can it? And a Babel of voices is what it has just heard, is now hearing. For that reason, if for no other, Congress is going to write the new tax law just about the way it sees fit and without more than passing deference to the disunited, disorganized wishes of conflicting and discordant business groups.

For that reason, also, there is going to be widespread dissatisfaction with the new law when it finally receives the ink of the President's approval. There is not a business interest in the United States that is going to throw up its hat, and hurrah. Ten out of every ten probably will feel they have been defrauded out of something they had a legal right to expect.

For the past five years the writer has spent most of his time collecting and publishing the views of business leaders on public questions of the day. He has corresponded with and met personally as charming and fine a set of gentlemen as ever lived—the salt of the United States if not of the earth. Courteous, polished, agreeable, affable—one could exhaust the kindly adjectives and then not say it all.

Unable to Get Together

BUT it is not their courtesy, their splendid and unfailing generosity for their good fellowship that has impressed him most, high as those qualities are written on his roll of memories. It is another thing altogether: their utter inability to get together on anything constructive in legislation. They seem organically unable to do so. They talk with the tongues of Babel which, in our parlance of jazz, is now babble. And the sad corollary is that they lose much, if not all, of the irresistible effectiveness they could command if they were able to mass their might behind a single cause.

Long before the Ways and Means Committee met in Washington last month to consider tax reduction the writer began to canvass business sentiment on the subject. Some 300 national organizations of industry were the target of our inquisition. To each organization was sent a query asking in substance how it wanted taxes cut and what plan of procedure it would recommend to Congress.

These organizations, for the most part, courteously replied with their views. Some had no views. Others had not crystallized their thought, but did so later. Still others generously started to take poll of their members.

Finally, a short time before the committee met, the symposium was completed. It showed such a wide diversity of opinion, such an utter irreconcilability of views that any united program was wholly out of the question.

Congress will have available for tax reduction about $350,000,000 at the greatest. It may be less, it will hardly be more. With that in mind, a total was counted up of chief (not the minor) proposals espoused by the different business groups.

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Recent Decisions

DIGESTED BY THOMAS B. PATON, JR.
Assistant General Counsel

Holder in Due Course of Stolen Liberty Bonds—New York

PLAINTIFFS sought to recover through replevin negotiable bearer bonds which had been stolen from them through the burglary in October, 1923, of a safe deposit vault in Chicago.

These bonds came into possession of one McGirr, of Buffalo, a saloon keeper with reputation for honesty, who sought the assistance in disposing of them of Hausle, the manager of a branch of defendant, of which McGirr had been a customer for over a year, stating that a friend of his (McGirr) had some negotiable bonds which he wished to sell for the purpose of financing a liquor transaction. The manager stated that he would handle the bonds, provided they were salable. After obtaining list of bonds, market quotations and selling them through Wright & Co., by Housmann & Co., brokers, on floor of New York Stock Exchange, proceeds of sale were given to McGirr by the manager. Neither defendant nor manager profited on transaction.

After practically all of the bonds had come into possession of purchasers who took them as bona fide purchasers and without notice of any infirmity in title, and Housmann & Co. had remitted in full for all bonds, upon notice that these bonds had been stolen the brokers handling them under rules of Stock Exchange returned them to Wright & Co., who called upon defendant to repurchase, which they did, and are now in possession of. Upon close of evidence decision was withheld upon motion for direction of verdict for defendant and question of defendant's good faith in taking bonds from McGirr was submitted to jury which found bad faith. By consent jury was discharged and decision reserved upon defendant's motion to set aside finding of jury and direction of verdict for defendant. The question was submitted under provisions of Section 95 of N. I. Act which provides in substance that to constitute notice of defect in title, person to whom it is negotiated must have actual knowledge of such facts that action amounted to bad faith. The court stated that eliminating the use to be made of the proceeds of the bond, there was nothing out of ordinary in transaction, that the defendant through its principal office and branch ordinarily bought and sold bonds for its customers, and the fact that for over a year prior to sale of bonds McGirr had maintained satisfactory account with defendant and was friendly to it naturally made defendant desirous of assisting him. The story he told the manager was plausible and tended to allay suspicion and inquiry. That however censurable manager's conduct in loaning bank's services in transaction it was hardly a circumstance which warranted finding of business dishonesty.

In opinion court says:

"The principle which protects a bona fide holder of commercial paper from antecedent equities does not require him at his peril to be on the alert for circumstances which might possibly excite the suspicion of extreme vigilance. His rights are determined by the simple test of honesty and good faith. The defendant's rights cannot be defeated without proof of actual notice of defect in the title or bad faith on its part evidenced by circumstances. Though its representative Hausle may have been negligent in taking the paper and omitted precautions which he prudently should have taken, nevertheless, unless he acted mala fide, the bank's title must prevail. * * * When Hausle's conduct is tested by this principle, it becomes apparent that the finding of bad faith is without evidence to support it. Therefore, the defendant's motion to set aside the jury's finding should be sustained."

Court says that defendant must be held to be a holder in due course under Section 97 of N. I. Act, for it cannot be contended that there was any evidence in case from which it could be found that bank was party to any fraud or illegality affecting the title of McGirr to bonds in question. Neither can it be disputed that practically all of the bonds came into the hands of holders in due course. "Concededly all holders of the bonds subsequent to Housmann & Co., were holders in due course. * * * However, as to all of the bonds which were sold by Housmann & Co., and subsequently repurchased by the bank, the defendant acquired the rights of such assignors, who, as stated above, were holders in due course."

Court sets aside finding of jury and grants judgment for defendant in both cases.

Bertha Harter v. The Peoples' Bank of Buffalo,
New York Supreme Court, Erie County, July, 1925.

Duty of Warehouseman Issuing Negotiable Receipt When Stored Goods Attached—Miss.

The holder of a negotiable warehouse receipt acquires such title to the goods for which the receipt was issued as the person negotiating the receipt had the ability to convey, and it is the duty of the warehouseman to hold possession of the goods for which the receipt was issued for the holder of the receipt as fully as if the receipt had been issued directly to him. A warehouseman who has issued a negotiable receipt for goods, and thereafter suffers them to be taken from his possession under a writ of attachment issued in a proceeding to which the holder of the receipt is not a party, without taking up and canceling the receipt therefor, is not relieved because of the seizure of the goods from accounting to the holder of the receipt for the value of the goods. He should have set forth the fact that a negotiable receipt had been issued against the goods in answer to the attachment proceedings and he would have been granted proper protection. Love v. People's Compress Co., 102 So. 275 (Miss. 12-24).

State Taxation of National Banks—Minnesota—Taxation for 1921 and 1922 Violates §5219 U. S. Rev. Stats.

IN the year 1921 shares of stock in a national bank were taxed at 67 mills on the dollar on 40 per cent of their value, equivalent to 26.8 mills on their full value. In the year 1922 the taxation was equivalent to 24.6 mills on their full value. Money and credits were taxed in those years under the Money and Credits Act (G. S. 1913, §2316) at 3 mills on the dollar of their value. It appeared from the evidence that a substantial part of such moneyed capital in the form of money and credits was used in competition with national banks, and this is held a discrimination forbidden by the Federal statute, §5219 U. S. Rev. Stats.

The fact that the Money and Credits Act was adopted for the purpose of and in fact has resulted in a material increase of revenue, does not remove the discrimination; nor does the four to three decision of the Supreme Court of Wisconsin, in April, 1925, in First Nat. Bank v. City of Hartford, 203 N. W. 721, sustaining the validity of a property tax imposed upon national bank shares while money and credits were taxed at a much lower rate upon an income basis, afford an authority which would sustain the Minnesota tax. That decision held in effect that under the Wisconsin law all business operated in competition with national banks is required to operate under the state banking law, and is subject to the same tax as the shares of national banks; the Wisconsin law differs so radically from the Minnesota law that the questions there presented for solution were not the same as those presented here. The Minnesota court points out the amendment to §5219 U. S. Revised Statutes, by the Act of March 3, 1923 (the case being decided under the section as it existed before the amendment) but does not discuss the effect of that amendment in its bearing upon the competitive character of money and credits. It also calls attention to McFarland v. Georgetown National Bank, 270 S. W., 995, in which the Kentucky court held the retroactive provision of the Act of March 3, 1923 (subdivision 4) legalized prior taxes which would be valid under §5219 as amended, and states it does not concur in such construction, but approves the construction given to this provision by the court in Minnehaha National Bank v. Anderson, 2 Fed. (2d) 897, that it authorizes the state to provide for the collection of an invalid tax theretofore levied, to the extent that such tax would be valid under §5219 as that section existed at the time it was levied.

State of Minnesota v. First National Bank of St. Paul, Supreme Court of Minnesota July 17, 1925, not yet reported.

The Condition of Business

Trade Barometers Generally Indicate a Normal Expansion of Business Since Mid-Summer. Prices of Industrial Stocks Soar to New Peaks, But Commodity Prices and Wage Rates Continue Relatively Steady. Causes of Recent Gold Movements.

IN line with the usual seasonal tendency, and apparently due also to some extent to the influence of other controlling factors, business has shown a moderate but steady expansion in volume during the fall months, as the crops have moved to their markets in this country and abroad, as supplies of coal have been laid in, and fall and winter merchandise has moved into consumers' hands.

This wave of activity has registered itself in many ways. The Federal Reserve Board's index of production in twenty-two basic lines of industry (which is adjusted to allow for normal seasonal variations) advanced 2 per cent in September, notwithstanding the suspension of anthracite mining. Substantial increases in output occurred in the iron and steel industry, in bituminous coal mining, and in the manufacture of textiles, while the decreases which occurred in some other industries were relatively small. The number of employed factory workers throughout the country increased in nearly all reporting industries. While contracts for new building projects in September were somewhat below the record level of August, they continued very large as compared with earlier months of the year and raised total building awards for the first nine months of the year to a sum nearly as large as for the entire year 1924.

Steel Industry Humming

THE expansion in activity in the steel industry became pronounced toward the end of October. New business increased, particularly from the railroads which earlier in the year had been only small buyers, delivery periods tended to lengthen, prices of pig iron and steel scrap advanced in many districts, and steel mill operations expanded to about 80 to 85 per cent of capacity. Farm implement mills were reported more active than at any time in three years. The renewed buying of steel products in October followed a gain during September of 200,000 tons in the unfilled orders of the United States Steel Corporation—the first increase in orders since February.

Larger movement of goods in trade channels has been evidenced in the weekly figures of railway traffic and in the monthly reports on our foreign trade. The week of October 17 was the thirteenth in succession in which car loadings of revenue freight were in excess of one million cars. Total traffic in the first forty-two weeks of 1925 exceeded that of the corresponding period of 1924 by about 6 per cent and 1923 (which heretofore had marked a high record) by about 2 per cent. As bearing on the general attempt in many lines of business to forecast more exactly the needs of industry and commerce in order to have a sounder basis for supplying equipment and other necessary facilities, it is interesting to note that the estimate made early last spring by the Car Service Division of the American Railway Association as to what the freight traffic would be for the first forty-two weeks of the year was less than 1 per cent away from the number of cars actually loaded.

Credit Has Expanded

THE volume of loans, both for commercial purposes and on securities, placed by banks in leading cities throughout the country increased further between September 16 and October 14. At the middle of October the total of such loans was nearly $650,000,000 larger than at the end of July. During this period, demand deposits of these banks increased about $360,000,000, but were below the level of the beginning of the year, while the volume of their borrowings at the Reserved Banks increased by about $200,000,000 to the highest point of the year.

Reflecting increases during the two preceding months both in discounts for member banks and in acceptances bought in the open market, the total volume of Reserve bank credit outstanding was larger in October than at any time during 1925. This growth has been due primarily to the seasonal increase during this period of about $100,000,000 in currency in circulation.

In the days before the Federal Reserve System was established, a seasonal expansion in the demand for credit such as has occurred since July would normally have had an important effect on money rates. There was no way by which the supply of funds could be increased or diminished to correspond with changes in demand, and hence the full influence of variation in demand was registered on money rates. Taking the period 1890-1908, the lowest point in money rates during the year was generally reached in June when rates were about 12 per cent below the average for the year. Between June and September a steady rise usually occurred which carried rates up to a level about 12 per cent above the average for the year. Now, however, the supply of credit is more flexible because seasonal demands for funds can be met by fuller recourse to the Federal Reserve Banks and hence the seasonal variation in money rates has been greatly reduced, although not entirely eliminated. This seasonal factor has been responsible in part for the somewhat firmer money conditions which develop between July and October. The open market rate on commercial paper in October was generally 4¼-4½ per cent, compared with 3¾-4 per cent in July, and ninety-day bankers' bills at 3½ per cent were ¼ of 1 per cent higher than in July.

In October renewed speculation for the rise carried the average price of representative stocks up to further new high records for recent years. The market as a whole had risen some twenty points since mid-summer, and nearly fifty-seven points, or 75 per cent, since the end of October, 1923, when the bull market began. On several days the volume of stock trading ran well above 2½ million shares a day, and nearly 600 separate issues were traded in on some days.

As had been true for some time past, industrial shares were the chief gainers. Railway shares with only a few exceptions stood practically motionless, nothwithstanding that the complete earning statements for August and the first eight months of the year, as well as the incomplete reports for September, showed very satisfactory results.

Factors which were frequently mentioned as responsible for the renewed advances included the unusually favorable second and third quarter earning reports of many companies and the still better prospects for the fourth quarter, the possibility of further reduction in Federal tax rates, and the treaty signed at Locarno. There has been a growing disposition, however, on the part of financial observers to regard the renewed advances as marking the final stages of the bull market which has been in progress for two years. Market letters of a majority of the large banks and responsible brokerage houses have been advising customers of the approach of what seems to them to be the turning point in the movement of stock prices.

Commodities vs. Stocks

IT has been frequently pointed out that the rise in stock prices, particularly industrial issues, in the past two years, together with the marked boom in building construction and real estate trading, and the rapid growth of instalment buying in many lines, have all been distinct evidences of a kind of inflationary tendency resulting from the unusually low levels to which money rates fell as a result of the gold inflow of 1923 and 1924. The conventional way in which the inflationary effects of easy money are supposed to make themselves felt is through competitive bidding for supplies of commodities and labor, resulting in high commodity prices and wage rates. Many economists, both here and abroad, assumed that such would necessarily be the result of the immense gold inflow. Instead, however, the pressure to put idle funds to work has expressed itself in other ways, notably in the security markets.

The contrast between the relative stability of commodity prices and wage rates on the one hand, and the immense rise in security prices on the other, is very striking.

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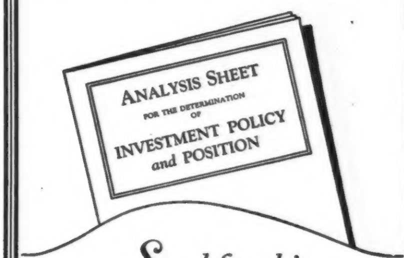

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Commodity prices, particularly those of the important basic commodities which are dealt in on the great organized markets of the country, and wage rates, especially of unskilled male labor, are very sensitive to speculative and competitive bidding. Representative indexes covering these items, however, show practically no fluctuation for the past two years. For a group of fifty representative stocks, on the other hand, the advance in two years amounts to about fifty-seven points or 75 per cent. The October quotations for a group of twenty representative industrial stocks were over twenty-two times as high as their aggregate dividends. This elevation of values, the Cleveland Trust Company notes, has been exceeded only in the burst of speculation at the peaks of previous bull markets. The continued rise in stock prices and their inverse reduction in yield, taken in conjunction with the increased cost of stock brokers' loans, has greatly reduced the advantage of carrying stocks on borrowed money. If this advantage should disappear altogether, a situation would exist which in the past has normally led to liquidation of accounts and declining stock prices.

Presumably reflecting talk of a possible further reduction in surtaxes, and consequently a diminution in the advantage of holding tax-exempt securities, decreases occurred in October in the prices of Liberty bonds and municipal issues. Three Liberty bond issues reached new low points for the year, the 3½s, which are wholly tax-exempt, dipping slightly below par and about two points below the high record for the year, established last summer. Domestic corporation bonds were also somewhat weaker in October and nearly all the gains made in September were cancelled.

The causes leading up to the shipment of upwards of $50,000,000 of gold from London to New York in October and the effects of the movement illustrate the sensitiveness with which our modern financial organization functions and the reciprocal and far-reaching reactions which often occur while equilibrium is being restored.

Last April when resumption of gold payments in England was undertaken, the Bank of England raised its discount rate to 5 per cent. One effect of this change was to stimulate a flow of funds to London to take advantage of the higher interest rates prevailing there. Instead of losing gold on balance as many feared would occur when a free gold market was established, the Bank actually gained about £8,650,000 net between the end of April and August 6, and the Bank's reserve ratio went to the highest point since 1916. In the open market, money rates became easier and signs began to appear of an excess supply of gold.

But while gold resumption was aided the rise in the discount rate put the Bank of England out of touch with the rates in the open market where the demand for funds was reduced as a result of the mild depression in industry and the accompanying wide-spread unemployment. To help out in this situation, the Bank of England lowered its rate in August to 4½ per cent and watched the effect on foreign bank balances. While a considerable reduction occurred in these balances, the effect on money rates was not very marked and on October 1 the Bank tried a further reduction in its rate to 4 per cent.

Coming at a time of year when money rates in this country were hardening under the influence of seasonal expansion in business and increased requirements from the stock market, it was natural that a further withdrawal of funds from London to New York should result. This influence, added to the usual seasonal pressure on sterling exchange resulting from payments to New York for cotton and grain shipped from this country, caused a decline in sterling in New York to a point slightly below that at which it is profitable for London bankers to send actual gold to New York rather than pay a premium for New York funds.

Accordingly, gold began to flow from London to New York and before the movement came to a pause toward the end of October, what at one time had been a net gain since resumption of gold payments of £8,650,000 in the Bank of England's reserves has become a net loss of about £5,400,000. In New York the gold was used by member banks to pay off some of their indebtedness at the Reserve Bank and money conditions here became slightly easier. The full impact of the gold imports was not felt in this country, however, for we in turn reshipped about $22,000,000 of gold to Canada, whose exchange was quoted in New York above par, presumably reflecting in part the abundant wheat exports from Canada this year. Following the gold shipments, the New York quotation on London firmed up to slightly above the "gold point." At the end of October it appeared that the movement had about spent itself, and this was in line with the usual experience before the war when the drain on the Bank of England's gold ceased in the latter part of October.

R. E. Chambers, cashier, Ansonia National Bank, Ansonia, Conn.; president, Connecticut Bankers Association.

Crop Conditions Improve

THE Department of Agriculture's October report on the condition of the grain crops showed considerable improvement as compared with the September report, chiefly because of a more liberal rainfall and some diminution of the consequences of drought, and also because the corn crop and other late crops had had time to mature with very little frost damage.

The indicated corn crop on October 1 was 2,900,000 bushels—nearly 500,000,000 bushels more than last year and about equal to the average of the preceding five years. The wheat crop is smaller than last year by 175,000,000 bushels, but the world crop is expected to be larger, due to larger crops in Canada and Europe.

During the first two weeks of October, the prospects for cotton showed further substantial improvement in all the Gulf States, and particularly in Texas. The indicated cotton crop of 15,226,000 bales on October 18 was 1,300,000 bales larger than anticipated a month previous, and promised to be the third largest in the history of the country, being exceeded only in 1911 and 1914. Following publication on October 26 of the Department's forecast, cotton prices fell off and at 20¼ cents for spot cotton on October 29 were 4½ cents lower than in September and the lowest in three and a half years.

Accompanying the growing probability of a very large cotton crop this year, and resulting lower prices for the raw staple, reports from the cotton manufacturing centers have become increasingly favorable. Orders have come in in larger volume and the mills have more business in sight than for some time.

In the woolen and worsted section of the textile industry, the American Woolen Company priced its recent offerings 5 to 10 per cent below last year's figures. Production is running larger but buying is cautious in view of the large supplies of wool and the tendency to lower costs. Several mills in New Jersey have recently reduced wages 10 per cent, in line with a similar reduction previously made in New England.

Four Current Banking Problems

By J. F. SARTORI
President, Security Trust & Savings Bank, Los Angeles

The More Rapid Growth of State Banks in Comparison with Nationals. The Growth of Time and Savings Deposits in the Two Classes. Branch Banking and the Number of Failures. The Need for an Investigation of the Branch Banking Problem.

DURING the nearly twelve years since the Federal Reserve Act was adopted, banking in the United States has been undergoing some interesting changes which until about three years ago pretty generally escaped serious notice. Even now no approach to a consideration of the problems created by these changes has been inaugurated comparable to the studies made by the Monetary Commission, though in my judgment the issues involved are just as fundamental, and just as important to the future welfare of the country as an elastic currency or a central reserve system. There is no desire on my part to minimize the importance of the questions which have arisen out of the existence and policies of the Reserve System but it appears to me urgently necessary to give proper consideration to these other questions, for they have a most important bearing upon our financial structure, and consequently upon the well-being of the country.

There are four of these questions which appear to demand the most careful investigation and consideration by experts. The trained economist and the practical banker should be joined in an effort to present the facts and then the conclusions based upon these facts before any legislation is enacted touching them.

The four things I have in mind are the more rapid growth of the state banks in comparison with the national banks; the growth of time and savings deposits in national banks and state commercial banks; branch banking, and the distressing number of bank failures in recent years.

Each of these topics is worthy of extended discussion and investigation but it is here possible to do little more than state some of the problems in connection with them.

Growth of State in Comparison with National Banks

WITHIN a very few years after the passage of the National Bank Act in 1863, the state banks which at that time had numbered 1466, almost ceased to exist. In 1868 we find that the number of state banks was only 247 and their total capital $66.363,925 compared with $405,045,829 in 1863, while the national banks were 1642 in number and their capital $420,260,790. The disappearance of the state banks was due primarily to the prestige attaching to the national banks by virtue of their national charter and supervision, their popular favor as war instruments through their purchases of government bonds to secure circulation, and through the tax placed upon the notes issued by the state banks. Of course, the mutual savings banks were not affected by the establishment of the national banks which were strictly commercial banks.

Gradually, however, state banking systems began to revive. By 1889 the state banks had increased in number to 1671 and in resources to $796,000,000. Their subsequent growth has been rapid and continuous until on April 6, 1925, the number of state banks was 21,122 and their resources $36,679,382,463. The number of national banks reached its maximum in 1923 when it was 8,241 with total resources of $21,511,800,000 while in 1925 the number had fallen to 8,016 though resources had increased to $23,832,463,000.

Cause of Greater Growth

THERE have been many causes for this greater growth of the state banks. Among them unquestionably have been the smaller capitalization required in many states, and the absence of adequate regulation and supervision—in short a lower standard of banking. But that these are not the chief reasons is evidenced by the growth of state banks even in those states, as California, where capital requirements are more burdensome and where regulation and supervision have been quite as exacting as in the case of national banks. Competition for size or numbers between the national banking system and the state banking systems would be most unfortunate if based upon a lowering rather than a raising of banking standards of safety and service.

Changes of the most far-reaching character have been taking place in the social and economic life of the American people. The old-time strictly commercial bank and the mutual savings bank did not fully meet these changed conditions. The national bank, traditionally a commercial bank, is governed by act of Congress, and it has always been difficult to get that body to do anything. New conditions do not develop simultaneously in all the states. Different economic conditions are to be found in almost every state and these conditions have demanded new and changing financial institutions. Thus the state banks have grown up to meet new conditions. State legislation has been far easier to get than national legislation and state banks have, therefore, been more readily adapted to the changing needs of our different communities. This, it seems to me, is the outstanding reason for the more rapid growth of the state banking systems. They have on the whole met the needs of their communities better than have the national banks. They have given a more elastic and, therefore, a more acceptable service.

The conclusion which seems inevitable from the foregoing is that the National Bank Act needs a complete revision to bring the activities of the national banks more into line with the services now performed by their competitors. No state banker who has the welfare of his country in mind can object to any legislation which will improve the service or stability of our financial institutions. We must, however, first make certain in so far as is possible that the proposed legislation has been well considered. The nice adjustment of banking relations is a delicate matter which should not be attempted by those lacking in experience or in wide theoretical knowledge of banking and finance.

As the Federal Reserve Act was the result of years of study by experts and of discussion by bankers and business men, so the revision of the National Bank Act should rest upon the results of expert opinion, of a far-reaching investigation into the economic conditions of our national life, of an assembly of the data regarding the legal status and historical development of our banking system, both state and national, and of the determination of what are the sound principles of banking enjoyed by the state banks and not by the national banks. No study comparable to that of the National Monetary Commission has been authorized by Congress. The extent of the modifications to which it was subjected in the Senate Committee at the hands of such able men as Senator Pepper and Senator Carter Glass entirely confirm this view.

Growth of Time and Savings Deposits

PRIMARILY commercial banks in their origin and history, the national banks in recent years and particularly since the adoption of the Federal Reserve Act, have been branching out into the two great fields of savings banking and trust business. There can be no valid objection raised, at least by state bankers as such, to national banks entering these fields provided that in doing so the interests of the savings depositors and the beneficiaries of trusts are adequately protected.

By the provisions of Sec. 11 K of the Federal Reserve Act national banks are authorized, conditioned upon the previous

consent of the Federal Reserve Board, to act in all fiduciary capacities permitted to state banks and trust companies. Under the provisions of this section of the Federal Reserve Act, national banks exercising trust powers must segregate all assets held in any fiduciary capacity from the general assets of the bank, must keep separate books and records of their trust business and such books and records shall be open to inspection by the state authorities to the same extent as the books and records of state corporations exercising fiduciary powers. Moreover, whenever the laws of a state require corporations acting in a fiduciary capacity to deposit securities with the state authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the state law.

Congress has in these provisions sought to throw about the exercise of fiduciary powers by national banks the safeguards provided by the state laws under which the trust business has developed. It seems reasonable to assume that the public interests will, under the terms of this section, be just as well protected in the case of national banks exercising fiduciary powers as of state banks and trust companies under like conditions.

In the case of savings deposits in national banks, the situation, however, is far different. There is in the National Bank Act no mention of savings or savings deposits and no authorization to national banks to accept savings deposits. In the Federal Reserve Act the word "savings" occurs once and that is in the section of the act dealing with reserves. The taking of savings deposits by national banks rests upon the theory that as Congress had established the national banking system and authorized the national banks to accept deposits, it must have been the intention of Congress that they should have the right to take savings deposits.

When it is recalled that at the time of the passage of the National Bank Act of 1863, the savings bank business was almost exclusively in the hands of the mutual savings banks, with very definite and special charter provisions and statutory regulations, the inadequacy of the reasoning is apparent. Strengthened by the presence of the word "savings" in the reserve section of the Federal Reserve Act, the national banks have gone ahead taking time and savings deposits until they had on April 6, 1925, more than $5,785,000,000 of such deposits.

A National Savings Bank?

RECENTLY the Comptroller has gone so far as to permit national banks to include the words "trust and savings" in their title as the Commercial National Trust and Savings Bank. It was brought to my attention a few weeks ago that a group were applying for a charter for a bank to be called the National Savings Bank to do exclusively a savings bank business!

In many states, the state commercial banks have been taking time and savings deposits in much the same way as have the national banks. From the very early days of our banking history, the savings bank was regarded as the place in which the man of small means, the wage earner, the widow, could place their small accumulations and feel that they would be safe. The results of their economy and thrift when placed in the savings bank would bring a sure though small return and could be relied upon when sickness, age or misfortune befell. Though people of large as well as small means are today depositors in savings banks, the foundation of all thrift and savings is still in the feeling of security for the results of self denial. It has been the effort in this country to hedge the savings bank about with an air almost of sanctity. The relation of a savings depositor to the bank was in the eyes of the law a trust relation while that of the ordinary depositor was that of debtor and creditor. Legal provisions of great variety are to be found, the object of which is to protect the savings depositor from loss. Chief of these has been the very generally adopted provision of carefully prescribing and limiting the character of loans and investments for savings deposits. To protect the bank the right to demand notice of withdrawals is recognized.

What I have been trying to picture as the legal and moral atmosphere surrounding a savings bank is entirely absent from the commercial bank. The depositor in a commercial bank is willing to have his funds loaned on the hazards of commerce because he may himself be engaged in business and may wish to borrow, or because of the greater convenience of being able to demand payment whenever he desires.

The Primary Objection

THE first objection then to a commercial bank, whether national or state, taking savings deposits is the breaking down of the traditional view of the savings deposit as something worthy of special legal care and protection which it does not get in a commercial bank. There are generally speaking no regulations governing the investment by commercial banks of their savings deposits different from those governing the investment of their demand deposits. In national banks not more than one-third of the time and savings deposits may be loaned on real estate and the general practice is not to make any real estate loans. Loans on real estate have been for the savings bank the chief means of putting out its funds. This restriction on the national banks bears true evidence of their traditional character as commercial banks. In the absence of other legal prescription and regulation of the loaning and investment of savings deposits by national banks, they are loaned just as are the demand deposits and subject to the same risk of loss.

From the standpoint of the savings depositor in a national bank it is easily conceivable that he may be in an even more hazardous position than the majority of demand depositors. The bank must reserve the right to demand at least thirty days' notice on all savings deposits before they can qualify as such under the regulations of the Federal Reserve Board. It would be perfectly natural, should a national bank taking savings deposits get into difficulty, for it to seek to keep afloat as long as possible, and in order to do so it could sell or pledge its available assets to meet withdrawals of demand deposits, while requiring thirty days' notice of withdrawal from savings depositors. Under such circumstances, should the bank eventually fail, the savings depositor would be left, along with the remaining demand and time depositors, with the poorest assets of the bank upon which to realize. This has actually happened in certain instances which have been brought to my attention. The above situation likewise exists in the state banks of a number of states.

This is a situation which assuredly should be remedied. In the National Bank Act there should be provisions similar to those governing the exercise of fiduciary powers. There should at least be a segregation of savings deposits and even though there be no prescription of the character of the loans and investments of savings deposits, a first lien should be given the savings depositors upon the segregated assets. This would furnish some measure of protection to the savings depositors. In my judgment the revision of the National Bank Act should go further and permit, or even require, that savings deposits should be loaned or invested in real estate mortgages, government, state and municipal bonds and perhaps a few other classes of specified bonds. The savings bank business is not a liquid banking business. This fact should be recognized by the National Bank Act and by the state bank acts and suitable provisions be enacted to protect both the depositor and the bank.

Branch Banking

THE United States alone of all the great commercial nations of the world has not a fully developed branch banking system. It is true that branch banking has always existed in the United States, that previous to the Civil War a number of the state banks were well conducted and highly developed branch banks, and that at present branch banking exists in about twenty of the states. Moreover, the First and Second Banks of the United States had branches and there are now twenty-three branches of the present Federal Reserve Banks. Branch banking has been characterized as un-American by Mr. Dawes when Comptroller, but the historical record refutes his statement.

Even in the national system, branch banking has been possible since 1868 when the provision was adopted permitting state banks with branches to convert into national banks and retain their branches. In 1918 the national system further countenanced branch banking by an amendment to the National Bank Act permitting the consolidation of banks with branches and the retention of the branches.

More recently successive Comptrollers beginning with Mr. Crissinger have permitted national banks to establish what are called agencies, but which in reality are branches, within the city limits in those states which permit state banks to operate branches. Certain national banks openly call their agencies branches and so advertise them. National banks have been expressly authorized by Congress to establish foreign branches and forty-six such branches of national banks were in operation in June, 1925.

The McFadden Bill proposed among other things to throw off the disguise under which

the Comptrollers have been acting and to grant to national banks the right to establish city branches in those states which permit their state banks to have such branches. There has been a good deal of discussion of branch banking since the first introduction of the McFadden Bill. Anti-branch bank associations have sprung up, bankers associations have gone on record as opposed to branch banking, even Mr. Dawes when Comptroller argued vehemently against branch banking though advocating city branches for national banks. Everywhere there has been much unsupported statement about the effects of branch banking but nowhere any real investigation of the facts. Neither the Federal Reserve Board nor Congress has undertaken an impartial investigation of the subject of branch banking. Would it not be well to have an impartial study by experts of the economic effects of branch banking in other countries and in those states in which it is operating in the United States? If branch banking is economically or socially unsound, those of us who are engaged in branch banking are the very first ones who want to know it. The result of our own rather extensive investigation of the operation of branch banking in this and other countries, combined with our actual experience over a period of a dozen years or more, has convinced us of its economic soundness. I wish to make it plain that the branch bankers do not fear but would welcome such an impartial investigation. This is a matter in which the people are more vitally interested than are the bankers and they are entitled to the best banking legislation which can be framed after the most thorough assembling and consideration of the data.

I am not so much interested in arguing the merits of branch banking as I am of insisting upon the necessity of a critical analysis of the arguments advanced for and against, such analysis to be based upon a study of the facts. Let us not seek to legislate nationally either for or against branch banking unless we have had a study of the data by experts.

Voluntary or Involuntary

MUCH has been made of the competition to which national banks have been subjected by the state banks and particular emphasis laid on the branch bank competition. It has been repeatedly claimed that the welfare of the Federal Reserve System is at stake by reason of this competition; that the compulsory membership of the national banks is the backbone of the Federal Reserve System but that the absorption and conversion of national banks is proceeding so rapidly as to constitute a distinct menace to the System. Is this true? Might it not be better in the long run for the System to rest upon the voluntary membership of sound banks, whether national or state? Do the large number of weak national banks which are compulsory members add to the strength of the System?

The whole question of the continued existence of the Federal Reserve System is before us through the demand for an early rechartering of the banks. There will be opposition to rechartering from a great variety of sources. Is it wise to do anything which may add to that opposition? The spirit of recent Comptrollers shows them as the avowed partisans of the national banks, determined to build up the national banking system at the expense of the state systems. Yes, even at the expense of state bank members of the Federal Reserve System.

From its outset the Federal Reserve System has been open to state banks and so many state banks have joined that the resources of state bank members are nearly 60 per cent of the national bank resources represented in the System. Is it wise at this juncture, when rechartering is an issue, to force state banks into opposition to the System in self defense? Such may well be the result of the passage of the McFadden Bill with section 9 retained, for this section very definitely seeks to change the present status of state member banks as fixed by the Federal Reserve Act and to deprive them of some of their statutory and charter rights in certain states.

So far as branch banking is concerned, it is my opinion that national banks should be put on a parity with the state banks. If the national banks are in need of protection in this particular, no halfway measure of city-wide branches as proposed in the McFadden Bill will suffice. The remedy is simple. Amend the National Bank Act to give to national banks in each state the same branch banking rights enjoyed by the state banks. Follow the precedent already set in regard to the exercise of fiduciary powers by national banks. Let the exercise of their branch banking rights be co-extensive with the rights and restrictions of state banks.

Bank Failures

THE extent of bank failures in the United States since 1920 has produced so much concern that the natural reluctance to speak plainly on this subject has been largely overcome. Vice-Governor Platt of the Federal Reserve Board has very forcefully directed the attention of the country to this condition and has stimulated thought by his suggestions.

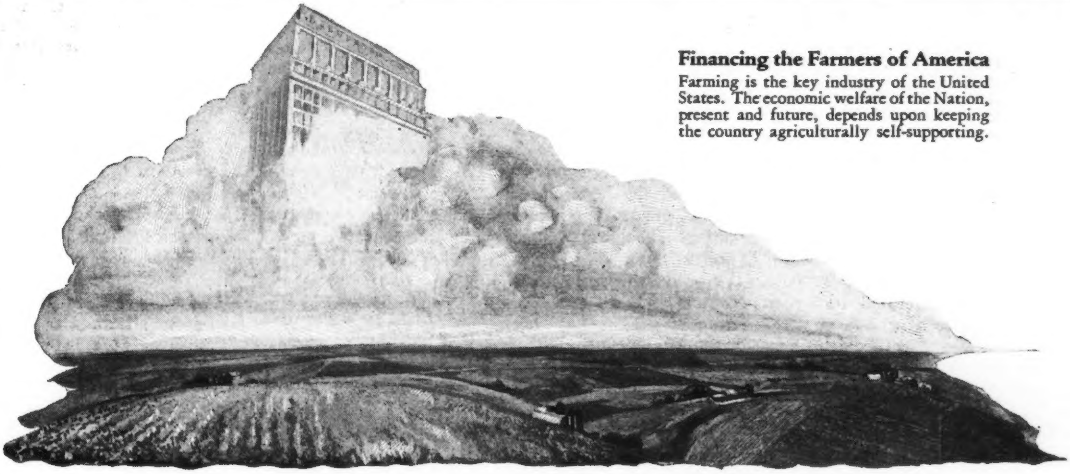
There have been other occasions in our history, generally following financial panics, when similar, if less acute conditions existed. Various remedies have been from time to time suggested and some of them tried, the most vicious being the guaranty of deposit acts in a number of states. Such guaranty laws have everywhere resulted in failure to prevent loss to depositors and have placed a crushing burden upon the solvent banks. Repeal of the law, withdrawal from its operation, substitution of surety bonds are among the means that have been chosen to avoid the eventual consequences of this unsound legislation.

The view has received widespread acceptance that the inauguration of the Federal Reserve System would prevent bank failures. There was little, if any, justification for this assumption. The Federal Reserve System may prevent financial panics but it cannot prevent bad management, undercapitalization, dishonesty and all the other causes of bank failures. It can help a sound bank to tide over a bad situation by enabling it to realize quickly and surely upon its paper eligible and acceptable for rediscount. Indirectly it may and doubtless has improved banking conditions and practices throughout the country by spreading information regarding sound banking practices and by frowning upon unsound practices of its members.

Meanwhile failures continue at the rate of more than one a day, and on all sides the question is raised of what can be done to prevent similar conditions from occurring in the future. From January 1, 1920, to July 1, 1925, the number of failed banks in the United States was 2081, situated for the most part in the Middle West, all the way from the Canadian border to the Mexican line and from the Mississippi River to the Rocky Mountains.

In August the Associated Press carried a news item to the effect that Prof. H. Parker Willis of Columbia University, assisted by a number of economists, had undertaken to investigate in behalf of certain private interests, among other things, bank failures in both the national and state systems. At about the same time it was announced that Prof. O. M. W. Sprague of Harvard had been employed by the Federal Reserve Board to make a similar study.

It is much to be hoped that the results of the investigations of these distinguished economists will be made available to the public, for they should be very helpful in arriving at the causes of failures and in showing the way to a proper remedy.



Financing the Farmers of America
Farming is the key industry of the United States. The economic welfare of the Nation, present and future, depends upon keeping the country agriculturally self-supporting.

INCREASING FARM PROSPERITY
through Joint Stock Land Banks

FOR years, in many sections of the United States, the farmer paid as high as 8% to 12%—and rarely less than 7%—for loans adequately secured by productive property. On the other hand, manufacturing concerns, with no better security than that offered by the farmer, could borrow money at far lower interest rates, because it was recognized that they could not profitably continue in business if exorbitant rates were demanded. The farmer, however, was expected to prosper under conditions which, if imposed on any other business enterprise, would threaten it with bankruptcy.

No Direct Contact with Capital

The reason such a situation existed was due primarily to *the inability of the farmer to establish direct contact with available and interested capital.* He was forced frequently to pay as many as four and five commissions to middlemen, thus doubling and trebling his cost on a perfectly sound loan.

The condition was not remedied until the Federal Farm Loan Act was passed by Congress in 1916, which offered a basis for the establishing of a practical, national farm banking system. Capital for agricultural purposes then became available to the farmer through Joint Stock Land Banks—at a net rate which has never since exceeded 6%. This government recognition of the fact that widely distributed credit resources for agriculture as well as industry are essential to the life of the nation assures the permanency of the Joint Stock Land Banks, and precludes the possibility of a return to the old and extremely unsatisfactory methods.

Government Supervision

Today, Joint Stock Land Banks supply a large part of the capital needs of agriculture. This is done as directly, and even more simply, than industrial enterprises can obtain similar credits. Under Government regulation, these Banks extend direct loans, secured by productive property, the value of which has been appraised by the Government.

Bonds are Tax-Exempt

The funds for these constructive loans are obtained principally through the purchase by investors of Joint Stock Land Bank Bonds. These Bonds are printed by the Government; they have been declared instrumentalities of the Government by the United States Supreme Court; and they are secured by first mortgages on productive farm lands. They are, by Federal Law, as fully tax-exempt as First Liberty 3½% Bonds.

The Guy Huston Organization—a complete organization of financial, land and bank specialists—affords Joint Stock Land Banks a broad, basic and helpful service. The facilities of this Organization are extended not only to Joint Stock Land Banks, but to investment bankers and institutions desiring information or reports covering any phase of Joint Stock Land Bank operations or securities.

GUY HUSTON ORGANIZATION

61 BROADWAY
New York

208 SO. LA SALLE ST.
Chicago

Size of Banks That Failed

A CURSORY examination reveals that most of the failed banks have been small. They were inadequately capitalized and undoubtedly were poorly managed. Their earning power in many instances did not warrant the employment of executives who could in a proper sense be characterized as bankers. A very large number of the failed banks were located in agricultural districts given over predominantly to a single crop. It seems reasonable to infer that the three factors of small capital, poor management and concentrated risk have been the prevailing factors in a very large number of bank failures. The problem then would seem to require some sort of legislation which would remove these factors. Larger capitalization can be prescribed by law, but unless some branch banking be permitted many smaller places would be deprived of banking facilities. Larger capitalization apparently produces on the whole better management and a greater diffusion of risk can be secured with operations extending over a larger territory.

It has been recently suggested that branch banking on a county-wide scale or perhaps within a radius of forty or fifty miles of the head office be recognized and that amalgamation of existing small institutions should take place with the operation of branches in the smaller places. Very few banks with capital of $250,000 or more have failed. If a county-wide branch banking system were recognized with capital of not less than $250,000 it seems highly improbable that we would have in this country very many bank failures.

Are the objections to branch banking of sufficient weight to warrant the tremendous economic loss to the people of the United States through the aggregate loss involved in the failures that occur? The loss is not confined to the depositor and stockholder but there is an indirect loss to the whole community. Undoubtedly the great number of bank failures in the Middle West has done much to retard the economic recovery of that section since 1920. Proof of this seems to lie in the fact that in Canada, with similar economic conditions, there has been neither the tremendous depression nor the permanence of depression that has occurred in our own Middle West.

With respect to all the four topics here discussed, I wish to urge again, in conclusion, the necessity of knowing the facts before legislation is enacted. The facts can be known only through an investigation by experts.

How Country Banks May Increase the Confidence of Customers

BY JOHN C. MCNEIL

ALL successful business is built through confidence and this is especially true of the banking business. Let there be the slightest let down in the confidence of the public in any banking institution and there will be an immediate loss of business. For the purpose of increasing the confidence of the public in the bank, the directorates are composed usually of the leading business men of the community.

Unfortunately the average board of directors consists of untrained bankers and consequently they are forced to rely upon the cashier or the executive officers of the bank for guidance in the technical details. The average director of the country bank is not acquainted with accounting terms and few could prepare a statement, or verify a statement from the books.

THE writer knows a small bank which had the usual board of directors—the town's leading lawyer, two physicians of prominence in the community, a retired business man who had accumulated a nice little fortune, a contractor who had built most of the town's buildings, a politician who was widely acquainted through the county, and the cashier of the bank. They figured that the business interests of the county were well represented and that they had a strong directorate.

The bank was examined with regularity by the bank examiner and the by-laws of the bank provided for an auditing committee of the directors to investigate the affairs of the bank semi-annually.

When calls were made on the banks for statements of condition the cashier would have his reports attested by such directors as he could locate. Invariably the physicians would have to be told where to sign their names to the documents, the correctness of which they were supposed to be verifying.

But one day it was discovered that this bank's capital was impaired, and when the bonding company put an auditor on the books to verify the shortage, he found that the entire capital and surplus had been wiped out and that the peculations had been going on for several years.

In the case of another bank, which developed a shortage of over 60 per cent of its capital, an accountant was refused the business of verifying its accounts. The president stated that he and the cashier "were expert bookkeepers and that they personally verified the affairs periodically." He was evidently correct, because the cashier abstracted the funds without any difficulty.

ANOTHER small bank depended upon the usual auditing committee of the board of directors to verify the assets in accordance with the by-laws. This committee always had the assistance of the cashier and when the shortage was uncovered, the cashier confessed that he had fooled the examining committee in its periodic examinations by having the members of the committee count the same funds twice. The cashier knew the approximate amount of his shortage and he would have a sufficient amount of currency counted the second time by them to hoodwink his directors.

It is impossible to keep a crook from slipping into a bank occasionally and ingratiating himself into the good graces of the directors. Because of this fact, the directors should protect their interest through audits, which should be made by accountants in public practice.

In order to avoid suspicions of trouble in the bank, the depositors should be prepared for the audit by a series of announcements that it is intended to have the affairs of the institution confirmed by independent accountants. These announcements should state that the accountants thoroughly investigate the affairs of the bank and their certificate is not given out unless the bank is in good condition. In these announcements, the depositors should be invited to bring to the accountants' attention any errors of omission or commission in their accounts. With the ground work properly prepared, an audit will not cause any loss of confidence. Audits should not be made, however, without acquainting the depositors with the fact.

IT is gradually coming to the point where the bonding companies will refuse to bond any officers or employees of banks that do not have their accounts audited by public accountants. This is a duty that the banks owe to their depositors and their stockholders. The only argument that any banker has to offer against such a course is its costs. In the three instances cited, the loss sustained in either of them would have paid for semi-annual audits for twenty-five or thirty years. These audits would have increased the confidence of their customers a hundred fold and the lives of three men would have been saved suffering and shame.

Financial Advertisers' Officers

THE Financial Advertisers' Association at its recent convention in Columbus, Ohio, elected the following officers: President, Carroll Ragan, United States Mortgage & Trust Co., New York City; First Vice-President, H. G. Hodapp, National City Company, New York City; Second Vice-President, Clinton F. Berry, The Union Trust Company, Detroit; Third Vice-President, Kline L. Roberts, Citizens Trust & Savings Bank, Columbus; Treasurer, Carl A. Gode, Illinois Merchants Trust Company, Chicago; Executive Secretary, Preston E. Reed, Chicago.

Heeding the Consumer's Whims

By C. B. SHERMAN

Government Survey Shows that Small Onions Are in Demand Only in New York and Philadelphia and That Only Kansas City and New Orleans Prefer Red Apples. A Study of the Demand Rather Than the Supply Necessary in Marketing Now.

FARM practices, farmers and the question of production and supply occupied the concentrated attention of agricultural scientists for many decades. One decade ago the center of attention shifted to market practices, to middlemen and to processes of marketing. Now, the suggestion of a third shift is discernible, for at least a few agricultural leaders are directing their attention to the homes, the consumers, and to the question of demand. They realize that knowledge of demand is as necessary as knowledge of supply if we are to have a balanced and successful agriculture. Prices must be satisfactory and fair both to the farmers and to the consumers and both groups must be kept constantly in mind in all plans for the future of the industry.

"Wouldn't it be more logical to talk of the law of demand and supply?" says one of these practical economists. "If that much-quoted law had been so named, it might have measureably altered our program of study and investigation. As it is now named, it suggests the proposition hindside foremost. Until there is demand, there is no need for supply."

Early in the first marketing studies of the past decade investigators came sharply up against the question of market preferences. These preferences had never been studied; they had never been written about; they had never been listed. They seemed to have no logical basis, to be the result of mere whims, yet there they were, frequently so fixed in practice that they affected two-thirds of the sales of certain products in certain cities.

An Onion Isn't Just an Onion

EXPERIENCED dealers knew of those that affected their commodities and allowed for them in their plans, but they usually knew nothing about preferences regarding other commodities on their markets or about preferences on other markets. Farmers and farmer shippers knew practically nothing of them, or if they did know they were inclined to disregard them as mere nonsense, often to their financial sorrow. An onion is an onion, they would argue. But what value is such reasoning, axiomatic as it is, if two out of every three buyers seeking onions pass it by?

For New Orleans will buy only red onions freely, whereas in nearly every other large city, red onions must be sold at a lower price. Small onions usually sell at a lower price, too, but in New York and Philadelphia small onions are in special demand by the large foreign population. These foreigners will pay decidedly higher prices to get the small-sized onions they want for boiling.

Kansas City and New Orleans, in common with most southern cities, are known in the trade as "red apple cities" but in other cities in the East the yellow varieties are the favorites.

New Orleans has always liked a high color in its butter, and much salt, as have other southern cities, and Boston joined them in this preference, but all of these cities are slowly drifting away from this tendency and are now buying more of the butter of light color and mild flavor that has always been preferred in New York and Philadelphia.

New York wants cheese that is highly colored, but Philadelphia wants mild, light-colored cheese in line with its butter preference. It is the only large city that insists upon having its poultry dry-picked rather than scalded.

An Egg Liked for Its Color

THE most emphatic and well-known market preferences are in regard to eggs. Boston must have a brown egg; New York must have a white egg. Boston pays an extra price in order to get just the kind of brown eggs it wants, while New York City pays an extra price for the sake of having its eggs chalk white. These are only a few of the many examples of distinct preferences now fairly well charted as a by-product of systematic studies of the marketing of our chief agricultural food commodities.

Fortunately for the producers, the color, size or shape that is taboo in one city is often preferred in another, so that if the shippers are up on the whims of the customers in the various cities within reach, they know just where to ship to advantage. Producers are learning every day that it pays them in actual dollars to consider these preferences even though they have to ship their produce a longer distance to reach the customers who want just the color of onion or apple or egg they have to offer.

But incidental knowledge of consumer preferences or demands were not enough, even if they did gradually total into systematic knowledge. About two years ago, under the suggestion and direction of J. Clyde Marquis, the practical economist who raised the query quoted in our second paragraph, the Department of Agriculture planned a series of systematic investigations of factors affecting consumer demand for selected farm products, and these studies are now yielding concrete results.

Highly developed methods of advertisers for the surveying of the prospective market for a product gave suggestions for these studies. Before a manufacturer places a product on the market he knows about the demand for that product. Before a farmer or a group of farmers places a product on the market, he should know about the demand for that product.

The Consumer Really Is King

THESE consumer-demand analyses are designed to bring out factors and characteristics which affect and control buying habits of families in regard to a given product—how much they buy it, how they use it, and their wishes concerning it—for consumers form the class upon whom the producer and the distributor are dependent for the sale of their product. One of the best known and most successful of the large cooperative marketing associations attributes its success largely to the fact that it holds always to the maxim that the consumer is king.

This consumer-demand work is conducted through carefully planned questionnaire surveys made by trained field workers. These workers secure from the housewife, in house-to-house canvasses, her buying and using experience in connection with the commodity under study. "It is not merely a question of getting answers to a specific list of questions, but of getting the right answers," says Mr. Marquis. "Perhaps the answers are not exactly a collection of facts, but if the consumer believes a thing is true and acts upon it, for her it is a fact. The fact may be questioned, but the object is to find what is in the mind of the consumer."

These questionnaires then form the basis for statistical analysis. Average consumption, methods of buying, family preferences, use of substitutes and reasons for buying are analyzed and are checked against the statistics of the distribution of the products in the given locality, to determine the importance of various influences.

These studies are made on the basis of groups (the well-to-do, the middle class, and the poor class of families) and on the basis of nationality or race groups (Polish, Italian, and negro, for instance, wherever nationalities or races are represented in sufficient numbers to permit such study and analysis. Approximately fifty families within a group seem to constitute a satisfactory sample. These families are taken from all sections of the city in order to obtain a comprehensive representation of the city.

The Rise of the Raisin

THE first work was done in connection with raisin advertising, because a rather accurate record of efforts to increase the consumption of raisins and of advertising

Francis G. Addison, Jr., vice-president, Security Savings & Commercial Bank, Washington; president, District of Columbia Bankers Association.

expenditure was available for comparison. One of the practical results of this preliminary study was the fact that, based on the results, the raisin campaign returned to its old slogan, recently abandoned, regarding today's supply of iron, because these studies showed the health appeal to be the strong one among consumers. As this affects the expenditure of about half a million dollars of advertising money and as marketing studies seem to show that time and money spent on advertising is a legitimate marketing cost, ultimately shared by all parties to the transaction, these studies would seem to be justified if they did no more than aid in the wise direction of advertising and as a basis for other educational campaigns.

There is no use wasting money on advertising that does not really reach the consumers and it has been found that, to be effective, food advertising must be directed not to the public at large but to particular types of individuals. Advertising today must be helpful to the consumer as well as to the sellers. Advertising that attempts to push the sale of a product without regard to the family and the public benefit in the long run is likely to be wasted money.

Two of the largest studies have related to the use of milk in Boston and in Philadelphia. One of the interesting things revealed is that about one-half of the adults who drank milk were reported to do so solely because they liked it. This may seem natural, but the milk campaign for that city had been built on the health issue. The returns indicated that only about one-fourth of the users drank it because of its food and health value, although among children its use was dictated largely by considerations of health.

Questions in the Boston study relating to the place of milk in the family diet brought 141 answers indicating that fresh vegetables and meat were considered the foods of greatest importance, with bread next and milk fourth. In Philadelphia, fresh vegetables

Travis Oliver, president, Central Savings Bank & Trust Co., Monroe; president, Louisiana Bankers Association.

stood first, meat second, and milk third. These replies were a surprise and disappointment to the dairymen. Fresh vegetables seem to have forged ahead recently in the estimation of housekeepers. The Burlington Milk Dealers Association has recently decided on an advertising campaign to increase local milk consumption. The facts disclosed by the Department's milk consumption investigation are used as a basis of the advertising copy.

A Study of the Meat Market

THE effect of consumers' habits upon the market for meat is now the subject of the most extensive consumer demand study yet made by the Department, and preliminary reports on the progress of the study have awakened great interest.

Studies have been made, thus far, in regard to raisins in Boston, Washington, Louisville, Denver, Minneapolis, Des Moines, and Cleveland; cranberries in Washington; citrus fruits in Boston and Washington; milk in Boston, Philadelphia and Minneapolis, and meat in New Haven, Binghamton, Baltimore, Washington and Jacksonville. Before the meat study is completed it is hoped to include twelve or fifteen cities.

Interest in the studies is widespread. Cooperative growers and marketing associations, state and city departments of markets, advertising agencies and various city boards are encouraging the studies and making use of the results. At the last meeting of the National Association of State Marketing Officials, one official stated that sooner or later the consumers were going to demand the extension of such work. Another declared that the next need in his state was for consumer information and consumer education. They had been studying supply and educating farmers for many years, he said, and really felt the need now of learning more about consumers and they believed that they needed to teach consumers more about when to buy and how to buy.

Section Nine

(*Continued from page* 314)

System has a definite value for the state member bank. Nevertheless, every state member bank is free at all times to weigh the advantages of the Federal Reserve System with the advantages of non-membership and to choose at its discretion.

Condition of Membership

WHEN the Federal Reserve Act was amended to permit state banks to become members and retain their full charter and statutory rights under the state laws, this privilege was granted by Congress "subject to the provisions of this Act and to the regulations of the Board made pursuant thereto" and one of these provisions as noted above was that the corporate powers exercised by a state bank desiring to become a member must be consistent with the purposes of this Act.

It is for Congress and not for the state legislature to say what are the purposes of the Federal Reserve Act and no state bank, upon becoming a member under the amendment above referred to, can acquire any vested rights to the exercise of any particular charter powers while continuing as a member bank. If Congress reaches the conclusion that state-wide branch banking should be brought to a standstill within the Federal Reserve System, the state banks cannot properly make complaint, nor can it be said that the rights of any state legislature have been invaded. To take any other position would be tantamount to holding that the state legislature has a right to dictate the conditions under which state banks may become and continue members of the Federal Reserve System. Such a position, it is needless to say, is altogether untenable.

I do not cherish the hope that this discussion will appeal to any one who believes that state-wide branch banking or nation-wide branch banking should proceed without restriction in this country. But I do hope that I have made clear to everyone, who is opposed to state-wide branch banking, that Section 9 of the National Bank Bill is wholly constitutional, makes no infringement upon the rights of any state legislature or interferes with any state banking system, but on the contrary is simply a means of preservation of the soundness of the Federal Reserve System itself.

New Books

THEORY OF ACCOUNTS. By Dr. Scott. 279 pages. Price $2.50. Published by Henry Holt and Company, New York.

One of the American Business Series, designed to give the reader an understanding of the larger aspects of bookkeeping and accounting. The book discusses the development and functions of modern accounting, the bookkeeping process, the proprietorships, both partnerships and corporate proprietorships and the valuation of assets. The author seeks to bring out the social significance of accounting and to give a familiarity with the principles rather than a knowledge of the details of accounting.

Holmes D. Baker, president, Citizens National Bank, Frederick; president, Maryland Bankers Association.

Mexican Bank

(Continued from page 343)

Deposits held by the promotion banks are to be governed by rules similar to those applying to commercial banks.

Single Bank of Issue

UP to the present writing, the law which will regulate the operations of the single bank of issue (Banco de Mexico) has not been enacted. According to press reports, however, the Executive signed a decree on August 5 appropriating the amount of 60,000,000 pesos to pay for 60 per cent of the stock of the new bank. The balance of the stock, amounting to 40,000,000 pesos, is to be subscribed for by the banks of the republic. The government, furthermore, has made arrangements for the purchase of the "La Mutua" building, one of the finest in Mexico City, for the housing of the bank which will be headed by Mr. Alberto Mascareñas, formerly employed by the government in the capacity of Financial Agent in New York City. It appears at the present time that the new bank will be strictly a government institution.

A statement of General Calles published in the press of Mexico on April 14, 1925, made clear the fact that none of the old bankers or individuals who have figured as managers of old banking institutions in Mexico will be called upon by the government to direct the management of the new bank. The council of administration of the bank will be composed of five members representing the government and four members representing the shareholders. That the Comision Monetaria will be used as a basis upon which the new bank will be established is evidenced by the fact that, according to official statements, the present branches of the Comision Monetaria will become automatically branches of the Bank of Mexico.

The most important operation of the bank will be that of note issue. It is stated that the metallic reserves of the bank amount

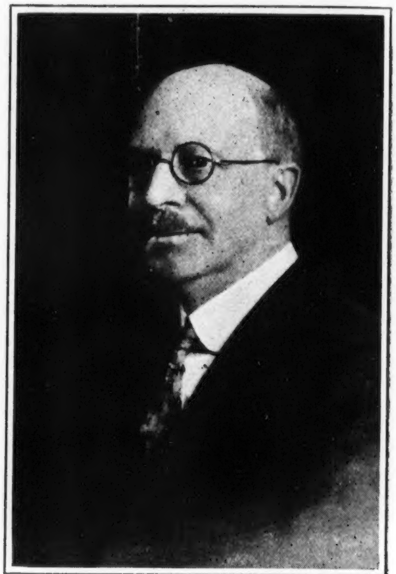
to about 45,000,000 gold pesos and 20,000,000 silver pesos, taking into consideration the resources of the Comision Monetaria.

The note issues will not be forced on the public by law, but will be received by the national railways, post office, telegraph offices and by all government offices on a parity with gold. The initial issue will be distributed to outlying districts of the republic. In this manner, the government calculates that the time required to return the notes for redemption, granting that the anticipation of extreme distrust in them proves well founded, will give the bank a safe margin of time to provide for the redemption of any amount. By prompt redemption, it is hoped to build up confidence in the new currency. Gradually, as confidence grows and the bills remain in circulation in increasing quantities without demands for redemption, the reserve fund can be partially withdrawn. It is said that the issue will likewise be increased as confidence in it grows.

Advantages in Opening Bank

IT may be reasonably expected that the following are the advantages which Mexico believes will be derived from the opening of the Bank of Issue:

- To extend rediscount facilities to the banks of the country.
- To issue notes, thereby solving the present problem of non-elastic currency.
- To serve as the keystone of the banking system of Mexico.
- To act as fiscal agent and official banker.
- To establish a system of branches throughout the country.



R. W. Joslyn, vice-president, Mercantile Bank & Trust Company, Boulder; president, Colorado Bankers Association.

A description of the present banking machinery of Mexico will be necessary for the discussion of the first point.

There are four different groups of banks in existence in Mexico at present, which are

The old banks of issue,
Private banks and bankers,
Branches of foreign banks,
The Comision Monetaria.

The first group is still the most important and the strongest. The combined capital of the old banks of issue amounts to about 95,000,000 pesos against the combined capital of the other banks in existence at present in Mexico of about 15,000,000 pesos, including that of the Comision Monetaria. Only a few of these banks, such as the Banco Nacional, the Banco Mercantil de Monterrey and the Banco de Nuevo Leon, have been able to resume operations on a limited scale. The government has not made good its promise to reimburse the banks for the loans made to the different rulers of Mexico, with the result that an early resumption of operations is rendered impossible. The government owes these banks some 80,000,000 pesos or about 20,000,000 pesos more than the government's share of the capital of the Banco de Mexico.

Although the condition of several of the banks of issue is such as to render their eventual re-organization almost impossible, a great number of them could be easily revived if the government's accounts were duly settled. In order to enjoy the rediscount facilities of the new bank, the old institutions of credit would have to subscribe to the stock of the former. This can only be done by the three banks which have decided to resume operations, the combined capital of which amounts to 36,500,000 pesos, of which 32,000,000 pesos constitute the capital of the Banco Nacional de Mexico.

The private banks operating in Mexico are the most important of their kind in existence in that country. Five of the larg-

W. R. Green, vice-president, Guardian Trust Company, Cleveland; president, Ohio Bankers Association.

est are located in Mexico City. There are a great number of private bankers and banking firms throughout the country, but their size is so small that for the purpose of this study it is not considered necessary to take them into consideration. Around this group of banks the government expects to build the new bank of issue. It is noted that the combined capital of these banks amounts to a little over 9,000,000 pesos. Taking for granted that some 5,000,000 pesos have been invested in the capital of the other private banks not established in Mexico City, a total of 14,000,000 pesos is obtained. This amount, added to the capitalization of the available banks among the old banks of issue makes up a total of 50,500,000 pesos, of which about 60 per cent belong to one institution. Taking for granted that the latter institution resolves to take part in the purchase of the shares of the new bank, it would be logical to assume that the investment would not amount to over 10 per cent of its own capital, namely, 3,200,000 pesos. It remains to be seen, therefore, how much of the remaining 36,800,000 pesos in shares will be purchased by the remaining institutions with a combined capital of about 18,500,000 pesos.

No consideration has been given to the branches of foreign banks operating in Mexico for the reason that it is doubtful whether they will be interested in the purchase of the Banco de Mexico's stock. A great percentage of deposits obtained in Mexico is sent abroad for investment, thus showing that for the present at least, they are not in need of rediscount facilities. At any rate, they will always enjoy the facility of recourse to their own head offices.

The important place which the branches of foreign banks in Mexico occupy in the economic life of that country is evidenced in the fact, as shown in the latest available statement of condition, that with a combined capital of 12,000,000 pesos these institutions had over 10,000,000 pesos in cash on hand, had loans outstanding for over 24,000,000 pesos and had deposits in banks for about 19,000,000 pesos. Private Mexican banks, with a combined capital of about 9,200,000 pesos, had over 9,600,000 pesos on hand, loans outstanding for only about 16,000,000 pesos and deposits in banks of about 4,560,000 pesos.

Comision Monetaria Outstanding

THE Comision Monetaria is the most important banking house in Mexico, by reason of its wide ramifications throughout the country and the fact that it is the official bank of the country. Besides its fiscal functions, the Comision Monetaria has been in charge of the regulation of the currency in circulation, in order to prevent speculation based on the disparity in value between the Mexican gold and silver coins. Commercial deposits have been accepted in silver and certificates issued for the payment of custom duties also in silver. The administration of the bank and its branches has been in the hands of a council appointed by the government. On December 31, 1924, the Executive of Mexico signed a decree reorganizing the Comision Monetaria as a stock bank with a capital of 15,000,000 pesos, of which the government's share of the capital subscription would be 7,650,000 pesos. The government's share was duly subscribed for after the enactment of the reorganization law, but the sale of the remaining stock of 7,350,000 pesos to the public was not attended with success.

It appears at the present time that the

government has abandoned its project to reorganize the Comision Monetaria and will have that institution merged with the new Banco de Mexico. The following statement gives the condition of the Comision Monetaria as of June 30, 1925. The large amounts of deposits are due to the accumulation of funds deposited by the government for the establishment of the new bank.

Assets

	Pesos
Unpaid capital	7,500,000
Cash on hand	31,651,840
Loans and discounts	27,855,023
Other credit items	8,304,776
Other assets	792,584
Accounts per contra	41,990,692
	118,094,915

Liabilities

	Pesos
Capital paid up	15,000,000
Reserves	16,903,212
Deposits	37,782,773
Other liabilities	6,418,238
Accounts per contra	41,990,692
	118,094,915

Since the Comision Monetaria will disappear after the opening of the Banco de Mexico takes place, it is not necessary to further discuss its situation and influence in the banking structure of Mexico.

THUS it is seen that the rediscount facility of the new bank would be extended to a very reduced number of banks with limited operations. It is doubtful, besides, that

J. B. Stirling, president, First National Bank, Jackson; president, Mississippi Bankers Association.

the Mexican banks will avail themselves fully of the rediscount facilities of the new bank as it is expected the Banco de Mexico will be empowered to deal directly with the public. In other words, it will be a competitor in the market. A similar situation prevails in Argentina with the Banco de la Nación. If a study is made of the statement of the condition of the Argentine banks it will be seen that an exceedingly large and out-of-proportion cash reserve is kept by the latter. It seems that many of them do not wish to make use of the facility of rediscounting in the national bank, because their doing so might be taken as a sign of weakness clearly evident to the official bank, which, operating as it does in every branch of the banking industry, is a rival, a competitor to whom it would be imprudent to disclose the secrets of their portfolios.

The second point to consider is that the bank will serve as a keystone for the new Mexican banking machinery. This point deserves no particular discussion. The Mexican banks at present in existence are few and weak. It is alleged that the new bank will participate, through the facility of rediscounting, in the operations of the present system. This might help to strengthen, to a certain extent, the altogether loose and feeble group of banking firms which have been able to weather the different political and economic storms during the few years of their existence.

The opening of the Banco de Mexico is not an indication that development of banking in Mexico will take place in the near future. Banking, to be successful, must be established on confidence in economic conditions prevailing. It cannot be said that conditions in Mexico are propitious for the opening of new banks. This fact, added to the uncertainty which the coming of the new government paper issues will have upon the situation in general does not seem to indicate that this second purpose for the establishment of the bank will be fulfilled for some time to come.

The third point, that of the bank acting

L. Albert Karel, president, State Bank of Kewaunee, Kewaunee; president, Wisconsin Bankers Association.

as fiscal agent and official bank, could hardly be considered as an inducement—for the people to have confidence in the bank. The government owns 60 per cent of the bank's capital and five out of the nine directors are to be government appointees. There could not be any stronger indication that the policies and operations of the bank will be dictated by the government. Judging from the lack of success which attended the sale to private investors of the shares of the Comision Monetaria, when the latter was converted into a private bank a few months ago, it is hardly expected that the present venture will be more successful. The extent of the subscription for the 40 per cent of the capital intended for the bank and the public will be a good barometer to judge the confidence prevailing in the new government institution.

The bank providing a net of branches throughout the country deserves no particular discussion.

In conclusion, it should be remembered that the old Mexican banks of issue have not lost their prestige. They are still regarded as the making of a banking system in which Mexico may still take special pride. It would be logical to assume that a new banking organization, based not on an altogether new venture, but on the prestige, stability, reliability and knowledge of the old banks of issue would be a system whose operation would have a far better chance of success. It is not advocated here that the privilege of note issue should be given back to the banks, nor that they should work on the basis of their old concessions. What is advocated is that a bank of rediscount and issue, built with a capital subscribed for by the old banks of issue and other banks in operation, placed in able and strong private hands, would be to Mexico what the Federal Reserve Banks are to the United States, the backbone of the economic life of the country.

The disastrous experiences of government currency issues are still too fresh in the minds of the people of Mexico and merchants in particular. It will be a difficult task to make the people of Mexico forget the lesson learned during the last fifteen years—the government issues without exception have been repudiated—the bank issues have declined in value, due to government interference, but they are still valuable and the notes of some of the banks are quoted at present as high as 70 per cent. It would seem, therefore, that a study of banking reorganization in Mexico, based on the settlement of the government's debt to the old bank of issue and the creation therefrom of the capital of a new private central bank of rediscount and issue, would be a proper way of approaching the subject.

Best Type

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of progressive change. The offices may in a few years, by reason of not offering the latest in ventilation, refrigeration, heating, appearance and convenience, cease to be in demand. Moreover, office buildings erected at the present high costs may have to compete with buildings later erected at materially lower costs.

A further negative factor is that many states limit the real estate assessment which may be deducted from the assessed value of the bank's shares. Where the assessed value of the building exceeds the limit of the deduction, the bank has to pay double taxation on the excess.

Most of the above arguments against the ownership of the office type of building are based on an analysis of the physical and investment features. It necessarily follows that bankers who reject the office building, assign only moderate values to the indirect gains above enumerated. They hold that the inherent nature of a bank's business—safeguarding the funds of its community and providing credit facilities—should cause a bank to be the last institution to enter avenues not essential to the transaction of banking business. The construction and operation of office buildings is entirely foreign to such functions. It is urged that there is no more reason why banks should engage in the renting of offices than undertakers or merchants.

In employing the bank's capital in office rental space the bank engages in an activity in which it enjoys no special advantages; in employing money in loan channels, it is contended that banks enjoy special advantages. In the matter of renting offices, banks have no special advantages over other owners of office buildings.

A common type of town bank building embraces the banking room with one floor of offices. One argument for this type of building is the small additional cost of the office floor.

Bankers opposed to the building with one floor of offices argue that a sufficient ceiling height to give a good appearance to the banking room, makes too high a stair climb to the floor of offices. The long stair climb impairs the office floor. Where an office building with elevator service is later provided, the offices with the long stair climb are usually deserted or yield very inferior rents.

An inspection of bank buildings with one floor of offices will demonstrate that it is difficult to combine a first class banking room and an attractive floor of offices. A high ceiling is essential to a good banking room. It provides better light and ventilation. It adds dignity and grace. The requirements for the highest type of banking room appearance and one first-class office floor cannot be reconciled. If this type of building is chosen, consideration should be given to a 16-ft. ceiling height, and then by skilful treatment of windows, columns and other decorative features, effect a great height.

The stairway requires skilful treatment. Its apparent height may be increased or decreased. A straight stairway, unbroken by landings or turns, gives the effect of a longer climb. Where the stairway ascends from the vestibule it is broken by landings and turns, and the effect is to lessen the climb. Such a stairway also affords an entrance to a rental room on the mezzanine floor. It has the additional advantage of having the traffic to the office floor pass the entrance to the bank.

A Minimum Investment

MANY bankers of mature experience strongly support buildings which provide only banking quarters. They urge that such a building requires the investment of the minimum amount of a bank's capital and surplus in fixed assets. The six-story office building, at present building costs, usually absorbs all of a bank's capital and surplus. The bank building designed to meet only banking requirements, gives much better results in utility and appearance. Buildings erected exclusively for banking purposes. frequently have a 27-ft. ceiling. This is a marked advantage to the appearance of the banking room. Frequently the one-story building is designed to carry additional stories in the event conditions should, in the future, make office floors attractive.

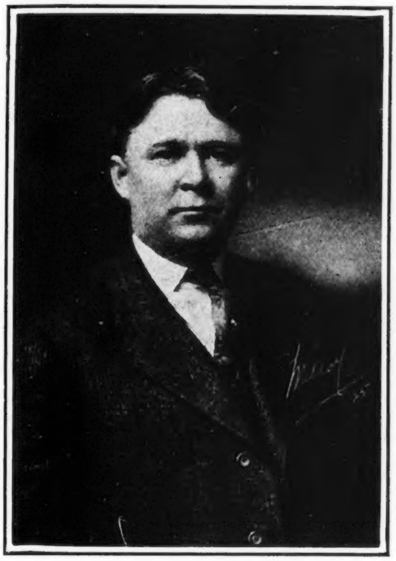
Testimony in favor of the exclusive bank building in towns, is offered by the Canadian and California banks. These sources offer almost the only views which are supported by the operation and ownership of hundreds of branches in towns. They usually solve the question in favor of the one-story exclusive bank building.

An officer of a large Canadian bank, which operates many branches, recently wrote:

"The type of building that we have adhered to in towns of 15,000 to 30,000 population has been either one or two-story.
"We limit our building programme to a one-story building except where houses are at a premium, in which event we have found it advisable to add a second story to provide accommodation for the manager and staff.
"From our knowledge of the situation we are inclined to the opinion that buildings with five or six floors of offices in towns do not pay."

Another officer of a large Canadian bank says:

"In towns of 15,000 to 30,000 we erect buildings of two stories, the upper one being required for the accommodation of the unmarried members of the staff who, on account of the hundreds of branches of this Bank, are frequently moved and are therefore seldom local men."



E. L. Rice, vice-president Bank of Commerce and Trust Co., Memphis; president Tennessee Bankers Association

Russia's Program

(*Continued from page* 348)

from abroad. In 1924-25 there was followed a special trade policy. Whereas in the two preceding years export surpluses were aimed at in order to provide foreign bills and gold for stabilizing the currency, the Foreign Trade Commissariat in 1924-25 consciously accepted an import surplus. It was decided early in 1924 that while exports must be lower than as stated in the program the import volume must be maintained. The reason was the so-called "wares hunger" of the peasantry. The policy of aiming for an active trade balance was thus temporarily abandoned, and only in the first four months of the business year did exports exceed imports. This enforced change of policy is illustrated by the following trade figures for the last three years:

	Imports	Exports	Export or Import Surplus
	(In Millions of	Roubles)	
1922-23	187	210	+ 23
1923-24	442	522.6	+ 80.6
1924-25 (11 mos.)	557	437.5	—119.5

"Wares Hunger"

THE good crops of 1925 have caused a reversal towards the old policy. It is proposed to attain an export surplus, but, as the "wares hunger" continues, not a large surplus. Practically all the cash received from exports is to go on purchases of foreign goods. "We could easily," says the president of the "Gosplan," "reap a big export surplus by limiting imports to the figure of 1924-25. But we do not propose to do so. We propose to import liberally." The Foreign Trade Program for 1925-26, drawn up on this principle, shows exports of 994 million roubles and imports of 972 million roubles, so that all but twenty-two millions of estimated in-takings will be spent. Of the total proposed imports 363 million roubles are to be raw materials, 175 millions half-manufactured materials, ninety-four millions "technical equipment wares" (for putting factories and transport in order), and 103 millions "goods for the special needs of the peasantry." On machinery of all kinds the program sanctions imports of value of fifty-six million roubles. In fact, the whole 972 million roubles will not be spent, because orders for about 200 millions have already been given.

Russia's foreign trade in 1924-25 was materially less than half that of 1913; in the case of exports, it was only about one-third. It has nevertheless recovered considerably. In 1913 imports were 1220 million roubles, and exports 1421 million roubles. In 1920-21 exports fell to the microscopic value of ten million roubles. In each of the three following years they doubled. In 1925-26 if the program is fulfilled imports will be nearly five-sixths of the pre-war figure.

Bankers' Acceptances

(*Continued from page* 334)

interest, sometimes getting as much as 24 and even 36 per cent a year. In Mexico City there are, of course, agencies of a few large foreign banks. But they do not make any heavy loans to industries in the country, confining themselves mostly to exchange, and to local business—for which they charge 10 and 15 per cent.

"The long-talked-of Mexican Bank of Issue was finally opened in September with a capital of 100,000,000 pesos. It is the sole bank of issue in Mexico, and it has the sincerest wishes of everyone for its success. But it is, of course, of too recent origin, as yet, to afford any relief to the general credit situation.

"It is to the safe, simple and easy machinery of the bankers' acceptances, and that well-known legend: 'This bill was secured at the time of acceptance by independent warehouse, terminal, or other similar receipt, conveying security title to . . . and the acceptor will remain secured throughout the life of this bill,' that we owe so much.

Acceptance Helps Other Lines

"THE Federal Reserve Act, giving American bankers authority to operate on the acceptance basis in Mexico, as in other foreign countries, has not only brought to the banks themselves a large volume of lucrative business, which they could not otherwise have obtained, but it has also been of enormous aid to the large scale sugar, cotton and other producers in Mexico.

"In general, the right which our bankers now have by law to accept drafts secured by non-perishable commodities in warehouses is without doubt the greatest single financial stimulant ever given to large scale Mexican agriculture.

"There are other sugar growers in Mexico, besides ourselves, who make profitable use of acceptances; and, to a large extent, the cotton growers in the Laguna district are using them. This bears directly on the success of all Americans who trade with Mexico, because she now ranks second among all our Latin-American customers in the value of her purchases from the United States."

Walker Scott, vice-president, Virginia Trust Co., Richmond; president Virginia Bankers Association.

New Adaptation

(*Continued from page* 346)

gold value has been adequately buttressed. The gold standard law provides that,

"Any money required for the purpose of exchange operations in connection with the return to the gold standard may be raised within two years after the passing of this act in such manner as the Treasury think fit, and for that purpose they may create and issue, either within or without the United Kingdom and either in British or in any other currency such securities bearing such rate of interest and subject to such conditions as to repayment, redemption or otherwise as they think fit, and, may guarantee in such manner and on such terms and conditions as they think proper the payment of interest and principal of any loan which may be raised for such purpose as aforesaid."

In view of the unquestioned gold status of the United States dollar the quotation in dollars of British exchange is as good an index of the gold value of the pound sterling as can be found. Furthermore, the maintenance of sterling value in dollars within the limits prescribed by the "gold points" will practically be equivalent to the maintenance of sterling in gold itself. With the expectation of using dollar credits in the American market to support sterling, should the need for such support arise, the government contracted for the use of three hundred million dollars in New York.

What the outcome will be cannot be definitely predicted, but the British are shrewd financiers, and most observers believe that the gold standard will be maintained. At this writing gold is moving from England to the United States. In the Fall when agricultural exports from the United States rise to their maximum, sterling is normally low. One of the complexities that presents itself arises in connection with prices here. Should the American dollar go up and prices correspondingly go down, then the dollar will tend to pull gold along. From the British point of view the most favorabe situation would be one in which the dollar, and consequently gold, would go down and American prices would go up. But what the developments in this connection will be, time alone can tell.

W. W. Armstrong, president National Copper Bank, Salt Lake City; president Utah Bankers Association.

The German System

BEFORE the war the German monetary system was also substantially like our own. Gold was coined, gold coin was in circulation, other kinds of money were kept at par with gold and there was substantial freedom of movement of gold into and out of Germany. But what happened to the German monetary system during the war and particularly during the post-Armistice period is, of course, known. From its proud eminence of gold parity the mark went practically to zero.

The new German system is based on the recommendation of the Dawes Commission. It was realized that any payment of reparations rested on the restoration of German economic life and that the central need here was stable money. Hence the Commission stipulated that reparation payments be collected in marks and be deposited in the Reichsbank, and that the sums so collected be transferred to the Allies only under such conditions as would not jeopard the position of the mark. The mark itself was again definitely put on a gold basis.

The new German system is a sort of a composite gold-standard system. The Dawes plan provides for the possibility of governmental coinage of gold but does not actually require it. But it definitely requires that all subsidiary money be issued through the Reichsbank. The purpose of this is to prevent any form of inflation. In obtaining subsidiary money for circulation the bank will have to pay for it on a gold basis. It will not, therefore, purchase more than is actually needed. With respect to the issue of credit money the Reichsbank is practically given a monopoly. The notes of the Reichsbank are legal tender "unless otherwise specifically provided by contract." It was expected that, as before the war, these notes would make up the bulk of the circulating medium.

It is in connection with the handling of the legal-tender notes of the Reichsbank that the provisions of the new German system are significant. The notes are issued in terms of a gold mark and the problem is to maintain the paper currency at the gold-mark value.

The Reichsbank is given three options in the redemption of its notes. These options are as follows:

a. In gold coin of full legal weight and fineness.

b. In gold bars in denominations of 1000 to 35,000 gold marks at their gold-coin value.

c. In demand drafts payable in gold or in foreign currencies at current market gold-values and drawn on balances in solvent banks to be specified by the bank's statutes. Attached to this third option is a proviso to the effect that the premium above mint parity charged by the bank for such drafts be limited to "the amount necessary to cover shipping expenses, including interest for the time of transit, on gold bars shipped in substantial quantities from Berlin to the foreign financial center on which the draft is drawn."

Each of these options represents a different type of gold standard. Under the first option if the German government adopts free and unlimited coinage of gold and if the bank redeems its notes in gold

H. W. McPhail, president, Willapa Harbor State Bank, Raymond, Wash.; president, Washington Bankers Association

coin and if there be no limitation on free inflow and outflow of gold, Germany would have an unrestricted gold standard. If, however, in the absence of free and unlimited coinage of gold the bank exercised option number two and supplied gold in bar form for export purposes then Germany would have a restricted gold-standard system. If, however, the bank availed itself of option number three and redeemed its notes in foreign drafts Germany would have a form of exchange standard. It would, however, be an unusual form of the exchange standard, because the option does not limit the bank to the drawing of drafts on a particular country which itself maintains an unrestricted and direct gold standard. The bank may draw such drafts on any country as long as these are drawn against "balances in solvent banks . . . specified by the bank's statutes," and as long as they are drawn at "current market gold-values." Under this option the anomalous situation may develop that Germany will maintain her own money on a gold basis by redeeming it in drafts drawn in terms of the depreciated money of other countries!

The gold-value basis is insured by the proviso that the drafts be payable in foreign currencies at "current market gold values" and that the premium above mint parity charged by the bank be limited to an amount which a prospective exporter of gold would have to assume as a cost if he obtained and exported gold itself. Obviously, if when selling drafts in foreign currencies at current gold-values the Reichsbank asked a premium in marks in excess of the usual gold shipping charges, there would be implied a discount of marks in gold, hence depreciation of the mark itself. The third option thus envisaged an exchange-standard system more complicated than any that has yet been formally adopted by any other country.

Both in England and in Germany there can be no question about the theoretical adequacy of the new monetary arrangements. The practical success of these arrangements will depend upon the developments of general economic conditions. If industry revives and trade expands so that the necessary foreign values can be accumulated both pounds sterling and marks will remain firmly established on a gold basis.

Fiduciary Conference in St. Louis

On Friday and Saturday, December 11 and 12, there will be held in St. Louis, at the Statler Hotel, an American Bankers Association Fiduciary Conference. There will be two sessions on Friday, morning and afternoon, and one on Saturday morning, with a dinner Friday evening.

The purpose of this conference is to serve the needs equally of the three classes of institutions now transacting fiduciary business—trust companies, national banks having fiduciary powers, and state banks having fiduciary powers.

The invitations to the conference, signed by the President of the American Bankers Association and the presidents of the three divisions, Trust Company, National Bank and State Bank, are intended to bring into the conference representatives from these three classes of banks.

Bankers Seek

(*Continued from page* 344)

York City, which indicated there was a general agreement among the banks of all types that the Federal tax burden should be lightened. Judge Paton advocated the abolition of the present capital stock tax law and a reduction in the flat tax of 12½ per cent on the net income. Members of the committee recalled that Secretary of the Treasury Mellon had advocated retention of the same taxes on corporation income and had expressed the opinion that, if the capital stock tax were repealed, the flat normal tax would have to be raised.

The members of the committee stated that the limit to which taxes might be reduced was about $300,000,000. The elimination of the capital stock tax would wipe out $90,000,000 in revenues, while the reduction of the normal corporation income tax to 10 per cent would cut down the revenues by $180,000,000. It was pointed out that these two changes would take almost all of the margin that Congress had at its disposal in lowering taxes and that, if this were done, there could be no surtax cutting, the repeal of the estate tax or the abolition of other taxes. Asked what the position of the Association would be under these limitations, Judge Paton said that the resolution urging the repeal of the Federal estate and gifts taxes should be given preference, as this action was taken by the general convention, while the move to ask for a fitting reduction in the corporation income tax had been adopted by the Executive Council.

Taxing Revocable Trusts

A CHANGE in the system of taxing the income from a revocable trust was requested by William H. Baden, assistant trust officer of the Washington Loan and Trust Company.

He urged the committee to omit from the Revenue Act the present provisions, which tax, as part of the net income of the maker of a revocable trust, the income from a trust that may be distributed or held for the future distribution of the grantor; or where part of the income is applied to insurance on the life of the grantor.

The resolution, advocating the abolition of these two sections, was adopted by the Executive Committee of the Trust Company Division, which also urged the elimination of the publicity section of the income tax law.

Mr. Baden declared that these two sections had a tendency to retard the revocable trust, which is beneficent in its effects. During the existence of the trust, he pointed out, the creator does not receive any income from it and therefore should not be taxed for the income that he does not receive. The person, who actually receives the income, should pay the tax on it, he insisted. The members of the committee said that the maker under the present law might provide in the trust instrument that the beneficiary should pay directly or pay to him the amount of the tax on the income and that this would meet the objection. Chairman Green suggested that the coming reduction in the surtax rates would do much to remedy the present objections to the taxing system.

"The revocability feature of the trust takes effect only if exercised," Mr. Baden said. "Experience shows that it is very seldom exercised, and then it is not for the purpose of evading the tax, but to make sure the donor's bounty will not be misused.

"To constitute income within the meaning of the constitutional grant of power, the Supreme Court has held that it must be received by the taxpayer for his separate benefit. It is undeniable that the trusts which are the subject of this investigation the recipient of the income is different from the creator of the trust. The income of a revocable trust is the property of the beneficiary and not of the grantor until such time as the trust is actually revoked. The corpus of the trust and the income arising from it has passed from the grantor, the corpus reposing in the trustee and the income in the beneficiary. Therefore, it seems to be unconstitutional to tax the grantor for income which he does not himself receive and which others have received."

A Dismal Failure

THERE is no excuse for the publicity section in the Revenue Act, Raymond H. Berry, assistant secretary of the Detroit Trust Company, said.

"There are only two reasons I can assign for legalizing the Bureau of Internal Revenue to make public the income tax paid by a taxpayer: First, to force delinquents to file returns and pay taxes; second, to be the means of frightening taxpayers into filing more proper returns," he asserted. "I am not certain I have guessed the reason, but I am certain that, whatever the reason, the justification is a dismal failure. I venture the prediction that the revenue collected as a result of this provision would not exceed $5,000.

"The section does not furnish information for the apprehension of delinquents nor cause taxpayers to be more careful in their tax returns, but it does entail more work and expense to the government. It reduces to obsolescence one's private affairs by legalizing curiosity seekers snooping into matters they cannot obtain otherwise. It permits unscrupulous salesmen to take undue advantage of information. This section has been abused by persons seeking divorces, using the information in connection with the suit for alimony. It is the means of causing less respect for laws by the government's legalizing and making public that which for centuries has been considered confidential."

Babel, Babble

(*Continued from page* 350)

The total exceeded $1,500,000,000.

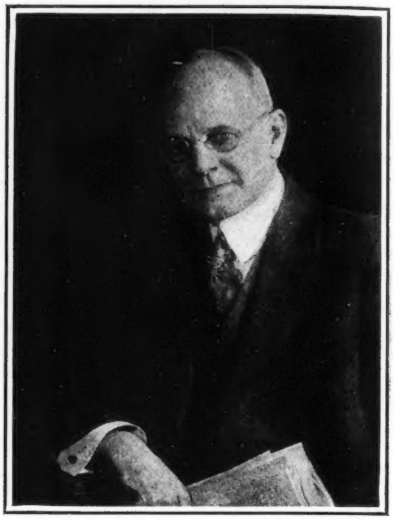
In other words, here was American business seriously preparing to ask Congress to spend a dollar for every quarter in its pocket.

Another thing came out in the wash: there were only three organizations out of more than one hundred that advocated any kind of tax reduction to the small taxpayer as a prime measure of relief. The normal tax wore the dunce cap. The business interests of the United States, all a-thirst for the cooling waters, overlooked entirely the cash customer in their scramble for the fountain.

Now gentle—or irate—reader, I want to ask you a question. Suppose you were an ignorant or near-ignorant Congressman. Suppose you really wanted to do something fine for American business in the way of relieving its tax burdens. Suppose you went to American business and asked it what you could do. And then suppose American business began to shout with one hundred voices in a mighty din and discord, telling you all about it.

What would you do?

And suppose still further—and then I am done with supposing—that you were going to return to your district next summer and go through a sweaty campaign with a roughneck wanting your job, a roughneck who would be low enough to plaster your district with bulletins telling how you voted on the plan to reduce taxes.



Geo. A. Rogers, president Abilene National Bank, Abilene; president Kansas Bankers Association.

Whose taxes would you reduce the most? Now that is just exactly what the average Congressman is going to do.

Put it down in the little private book you carry in your vest pocket for sacred phone numbers and the like, Mr. Business Man, Congress is going to cut the little man's taxes first of all. Somehow, when the tax bill breaks its cocoon and becomes a legal butterfly, it will flit first to the little flower garden and not to the greenhouse. And for that, put down the reason that you, yourself, speaking with the tongues of Babel, will have made it so.

That $5000 personal exemption is going through unless there is an earthquake on Capitol Hill. You may feel apoplexy coming on, but the feeling will pass. So, in all likelihood, will the $5,000 exemption. So, too, will the prospect of a thumping big slash in other taxes clear down the line.

Get the Bookkeeper to Do It

IF you don't want to figure it out yourself, get your bookkeeper to do it for you. Any ordinary bookkeeper will do. Give him these factors in the equation:

1. The passage of a $5,000 personal exemption that will lower individual taxes by $125,000,000 to $150,000,000 a year.

2. A fund of not to exceed $350,000,000 for tax reduction of all kinds.

3. Proposals to cut the surtax by $150,000,000; to abolish the inheritance tax amounting to about $75,000,000; to cut the corporation tax by from $180,000,000 to $600,000,000; to abolish excise taxes on automobiles and accessories amounting to about $150,000,000; to eliminate the capital stock tax running to about $90,000,000; to lift other excise taxes, including the amusement tax, running to about $250,000,000 more.

Tell your bookkeeper to regard items 1 and 2 as definite and to figure out a way whereby everything in item 3 can be accomplished.

Don't you see what you've done? You've given Congress the task impossible.

Setting Up

(*Continued from page* 340)

check and there is no accrued interest to calculate or explain to the uninitiated. As the certificates are sold, new mortgages are assigned until a series is completed; then a new series is begun.

A register is kept of each series, both for the certificates and for the mortgages which are assigned for their protection. As the certificates mature or are paid, which occasionally occurs, new certificates are issued in the same series until it is built back to the original amount. When a mortgage which has been assigned to a given series is paid, or when a partial payment is made on a mortgage, a new mortgage is substituted in that series, always keeping the amount of mortgages pledged up to the amount of certificates outstanding. The detail is not very burdensome and the system makes it possible to sell certificates as low as $100.

In fact, it is better to have them printed up in denominations of even hundreds up to $1,000, then in $1,000, $2,000 and $5,000 denominations, in order that the wants of any investor may be quickly supplied.

No.......... $........

PARTICIPATION TRUST CERTIFICATE
BLANKVILLE SAVINGS BANK
Blankville

Maturity........ Series........

The BLANKVILLE SAVINGS BANK of BLANKVILLE, hereinafter called the Bank, certifies that the holder of this certificate is entitled under the conditions and upon the terms hereinafter named to receive

ONE THOUSAND DOLLARS

or his pro rata part thereof, from the moneys collected on account of the principal of certain real estate notes purchased for and held in trust by the Bank for the equal pro rata benefit of the holders of this series of trust certificates as follows:

The Bank has registered and set aside in a group designated as the series named above, apart from its own assets, real estate mortgage notes of the face value of One Hundred Thousand Dollars, bearing interest at a rate not less than six per cent per annum, and maturing not later than three years from the date hereof.

For any of said notes, the Bank shall have the right, in the exercise of its sound judgment as Trustee, under the same limitations as to interest and maturity, to substitute in said trust group other real estate mortgage notes of like face value.

The Bank as trustee will attend to the collection of the principal of said notes and the interest thereon, and from the interest so collected, will, upon the presentation of the appropriate coupon attached hereto, pay to the holder of this certificate, semi-annually, from the date hereof, his pro rata part of the interest so collected; the Bank's compensation for its said services as such trustee to be derived from the commission charged by it to the makers of such mortgage notes at the time of the applications for loans made thereon, or from the excess of interest above six per cent per annum where such notes may lawfully bear such excess of interest.

Three years from date this certificate shall be presented to the Bank for an accounting and for the payment of the holder of his pro rata share of the principal of said notes so collected.

The holder of this certificate, or his authorized representative, may at any time during banking hours examine said notes.

BLANKVILLE SAVINGS BANK
By..............................
President
Cashier

The above form may be drawn with or without the use of an outside trustee and with or without interest coupons. Coupons obviate the necessity of sending out checks for interest.

As the bank is not legally liable for certificates of this kind, it is not necessary to show them as a liability in the statement, nor what is more important, is it necessary to carry any reserve against outstanding issues. In this way, the entire amount of funds received for certificates may be used in making new loans without the necessity of setting aside a part of it for reserve funds. Of course, there is always a moral responsibility and there will always be a certain amount of certificates cashed at maturity, and requests made for repurchase of certificates before maturity, but when the system is properly handled, the investors are usually satisfied to renew the certificates from time to time and the demand for funds on them is negligible.

It is a good policy always to cash certificates before maturity, if desired, without question, but naturally the investor cannot and does not usually expect the same rate of interest on a certificate cashed before maturity as if he waits until the contract is completed. Usually it is easy to explain to him that if the certificate is cashed in before it is due, it becomes necessary for the bank to advance the money out of its own funds instead of collecting it from the mortgages, and that under those circumstances the investor should not expect more than the regular savings rate. This explanation generally is quite satisfactory, and costs the bank no more than if the funds had remained on a savings account.

Banks which have adopted this method of giving to depositors a better rate of interest than is provided by their savings deposits have found it quite successful by reason of the fact that the detail of handling it is reduced and that no reserves are required against the funds. A larger profit is made on a much smaller spread with this type of business than is realized on savings deposits.

The new American Telephone and Telegraph Company building in New York City

Old Markets and New

THE most remarkable thing about the picture shown on this page is that the photographer has inadvertently given us a striking illustration of the difference between old markets and new markets—the difference between old methods and modern methods in distribution.

One of the most famous markets in the world is the Old Washington Market in lower New York, the low dark building in the right foreground of the picture to which New York housewives of a generation ago were wont to wend their ways for their morning shopping.

It still is an important market, a place of interest and a really busy mart for food supplies. But consider the new market which has risen up beside it! The new building of the American Telephone and Telegraph Company—for the telephone switch board, in fact as well as in fancy—is the greatest market of the world, and the busy agency of distribution as well as of the all-powerful instrument for the transmission of intelligence. The old style market, however big its business may be, serves comparatively few and even with the adjunct of automobiles, telephones and motor trucks, necessarily has a restricted area of distribution whereas the area or range of the telephone as a market place is illimitable.

Income from Foreign Investments

American investments abroad continue to increase. As an indication of the amount of this investment, the Treasury Department gives statistics showing that income of $117,686,111 was reported for 1922 by American citizens and corporations from sources in foreign countries. The data relative to individuals represents only the information contained in returns reporting net income of $5,000 and over.

Who Will Dominate

(*Continued from page* 322)

more than 65,000 employees. The Jones Brothers Tea Company, another chain of groceries, makes about half the goods it sells, and maintains a staff of peripatetic salesmen, whom it supplies with commodities.

The United Drug Company, with 300 shops in this country, and with control of another corporation operating 700 in the British Isles, represents a merger, as does the Jones Company. The United Cigar stores have nearly 3000 shops and agencies, about equally divided. The agencies are in small towns where the trade does not seem to justify a separate establishment. A. Schulte, a competitor in the tobacco trade, although he has fewer shops, has increased his sales by more than 150 per cent in the last four years. Some of the chain systems boast an increase of hundreds of per cent in the last half dozen years.

The Woolworth, Kresge, Kress and McCrory five-and-ten-cent stores lead their field. There are candy, restaurant, shoe and clothing chains. There is even a chain of shops which handle nuts only. Department of Commerce reports reveal that the chain systems are going ahead faster than either of their competitors, the department stores or the mail order houses. The number of chain units increases by about one-fifth a year, and the sales by about one-sixth in the corresponding period. In the face of such growth other small units must give ground.

Mostly it will be the weak independent dealer who will give ground; but the department stores realize the disadvantage they suffer in this: that the volume of their purchasing must be split up between many departments—sometimes as many as 100—as against the chain specialty store which concentrates within a narrow field. This is one explanation of department store consolidations, which help to overcome the handicap.

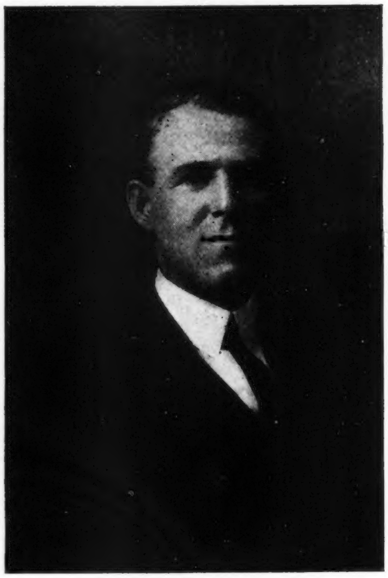
About half the chain stores deal in groceries, despite the fact that in this field they have met the greatest opposition; and many department stores do not handle groceries, so that the competition between the big fellows is not so keen. The main contest here is between the chain unit and the independent dealer; with the department store as an added starter if it has a grocery department.

Notable Success in Staples

CHAIN systems have achieved their notable successes so far in staple commodities for which there is a steady demand, making possible a quick turnover at small profits. It is difficult to fancy that the time is coming when there will be chain systems for the sale of automobiles of various brands, for instance, or chain systems for Irish lace. It is true that automobile manufacturers establish selling agencies, but these have not the nature of the chain system. They resemble rather a licensing system, and the capital is supplied by the local dealer.

There is, to be sure, a chain system which began under a partnership plan which achieved spectacular success. This is the Penney stores, founded by J. C. Penney twenty-odd years ago after an initial success as a dealer in shoes, clothes and dry goods out in Wyoming. His plan was to take into partnership with himself individuals in other towns, and supply them through a central purchasing agency. When he incorporated in 1912 he had a string of thirty-four such partnerships; now he has more than 600, and they are doing a business of seventy-five millions a year. Last year the net income was four and a half millions, an increase in five years of 540 per cent.

Facts such as these interlard the history of the chain store movement. But in the crowded lower end of Manhattan Island is a concrete fact even more impressive, because it is visible. It towers nearly 800 feet in air, and is an eloquent monument to the success of this departure in American commerce. Its beauty makes it a magnet not only for tourists but a thing of continuing pleasure to New Yorkers themselves. The Woolworth Building, lifting its seemingly lace-like tower into the air, testifies better than can dry statistics to the power and profits of the nickels and dimes spent over retail counters.



J. E. McCarten, president, National Bank of Newport; president, Vermont Bankers Association.

Kirt L. Hart, Vice-president, South Arizona Bank & Trust Company, Tucson; president, Arizona Bankers Association

Bank Loans

(*Continued from page* 312)

the things needed and the means of financing the purchases tend to increase the volume of sales—and quite naturally the store wants to profit from these circumstances.

"The strong points of the plan are these," Mr. Bean continued. "Customers can buy goods in the store at cash prices plus 6 per cent per annum and have the privilege of paying for them in twenty-five or fifty weekly installments. This is a great saving over prices that they would have to pay to the so-called installment houses.

"The store gets its money at 2 per cent—certainly much cheaper than it could get the money at in any other way.

"The bank conducts the whole operation at a substantial profit. It makes approximately 20 per cent on twenty-five-week acceptances and 16 per cent on fifty-week acceptances, due to the fact that the payments are made weekly and that the 2 per cent, which the store pays us, applies the same whether the acceptance is for the shorter or longer term.

"It will be readily seen therefore that the customer's advantage is buying goods at cash prices and paying only 6 per cent interest. The store's advantage is that it gets its money at 2 per cent and the bank's advantage is that it gets a good rate of interest."

Safeguarding Credit

THE department store observes the usual rules in seeing that only those customers, who are entitled to credit, are permitted to buy merchandise under this plan. Its credit department passes on all applicants and thus seeks to keep the risk of loss as low as possible. The bank takes no chances, however, for the store guarantees the payment of the trade acceptances.

"The arrangement is," Mr. Bean explained, "that where any customer has failed to make payments for eight successive weeks, the account is charged back to the store and returned to it to take such steps as the officials see fit.

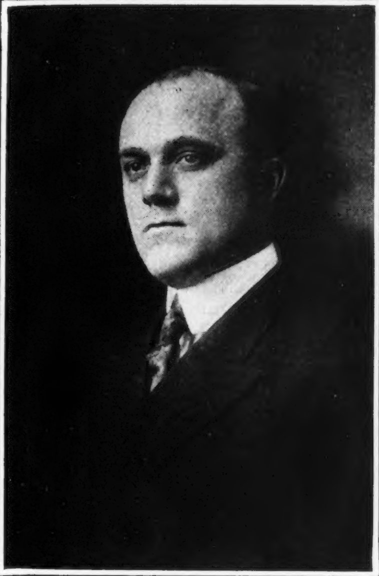
"The psychology of the situation that people will make their payments more promptly to a bank than they will to a store has been borne out thus far. While our experience has been only for a short time, we have looked over 93 accounts turned over to us by the store and, out of that number, we find only three delinquencies. This is a very much better record than that of any collection department in a store.

"On August 1, our bank started an Industrial Loan Department, making loans to people of good reputation, who are employed and who can furnish two endorsers with the same qualifications. The arrangement with the department store is run in connection with this department of the bank. So far as we know, this is the first commercial bank which has put in a department of this kind and from our experience, so far, we find that it is working very satisfactorily.

"The loan companies in Louisville of the type that make small loans charge interest at the rate of from 16 to 150 per cent per year and, quite naturally, the employed people are resentful of the high rates and suspicious of these money lenders. In our advertisements, we tell them that our discount is 8 per cent and this inspires confidence.

"We expect to develop some business for the bank through the operation of the industrial loan department. When a man pays off his loan, we shall endeavor to get him to continue to set aside in a savings account the amount of the weekly or monthly installment that he has been meeting.

"While the average customer of a department store, who has been accustomed to buying merchandise on a charge account, may not be appreciative of the fact that the merchant must make provision in fixing the price of articles to be sold to cover the cost of the credit extended, it is generally understood that the prices of installment houses for similar articles are higher than those of cash houses. The department store, of course, wants to establish the fact that the people are buying at cash prices, although they can pay the bank in installments and that this fortuitous circumstance is made possible through the new plan."



D. H. Lightner, cashier, Citizens Trust & Savings Bank, Aberdeen; president, South Dakota Bankers Association

Florida Bankers

(*Continued from page* 316)

answer must be somewhat like that of the Swedish lineman selling stock in the central station company that employed him. He told purchasers that whenever they doubted, to turn on the electric light in their own homes. "If she shines," he said, "she's safe." So long as Florida grows, she's safe.

There's nothing mysterious about investing in Florida land or gaging the worth of such investments. Real estate was the first great industry here, and in consequence is about the best organized. Real estate brokers and salesmen are required to take out state licenses, and in many communities county and municipal licenses as well. The license system involves certain requirements of ability, honesty and the like, and real estate organizations exercise a further supervision over their members. So any question of real estate can be submitted to men on the ground by simply addressing real estate boards in the particular community. Any Florida banker will be glad to help outsiders make connections with established, responsible, expert realty men, either for investment, sale or counsel. Though much of the present dealing is frankly speculative, Floridians confidently anticipate the time when property will stabilize. Where prices have been pushed too high, they will shrink when the bona fide owner finally appears, and reduces things to an actual earning basis. Already there have been significant setbacks here and there, which show that the gentleman with pad and pencil, figuring actual earning power, is quietly on the job. And real estate men, individually and through their local boards, are constantly seeking to eliminate the wild speculator who would trade in land as though it were curb stocks.

To sum up, Florida's boom brought almost unprecedented banking problems, which have been met.

Liked the Convention

"I WAS surprised in the men and women who attended the American Bankers Association meeting in Atlantic City," says W. H. Johnson, president of the Arkansas Bankers Association in a statement in the Arkansas *Banker*. "They averaged higher both in ability and character than I expected. I have never seen a finer group. It was evident that they were persons of high purposes, imbued with the spirit of service and devoted to their work. They were in earnest, attended the sessions well and paid comparatively little attention to the outside attractions of Atlantic City.

"I was deeply impressed with the opening exercises of the first general session when it seemed that everyone in that great audience of 4000 joined in repeating the Lord's Prayer and in the singing of America.

"The most striking incident of the Convention to me was the escorting to the platform and the introduction of Mr. George F. Baker of New York, one of the greatest living bankers who not long since celebrated his 80th birthday and who was one of the founders of the Association fifty years ago. Through all the years he has kept his interest and was present to show it.

"The Convention was full of the simple wisdom, kindly spirit and high purposes of President Wm. E. Knox and it was perhaps due to this that the Golden Anniversary was not celebrated with a hullabaloo but with the sane and practical work of raising half a million dollars with which to establish a Foundation for the teaching of Economics to deserving men and women."

Bankers Bill

(*Continued from page* 330)

tificate or bill market may be withdrawn at any time by the sale of the certificate or bill to a dealer, or under certain conditions a Federal Reserve bank. Both the certificate and bill markets are "two-way" markets in the sense that certificates and bills can be sold to the market as well as bought. This is in contrast with commercial paper, which must be held until maturity, unless it is rediscounted at a Reserve Bank. The call money market is in effect a "two-way" market because funds placed in it can usually be withdrawn readily, but call loans cannot be rediscounted with or sold to the Reserve banks.

Certificates and bills carry low rates because of their practically complete security and liquidity. They have proved acceptable purchases for those who have funds to employ for limited or uncertain periods and wish the maximum safety and availability.

Some time ago an inquiry was made by the New York Reserve Bank to ascertain just who the buyers of acceptances were other than such well-known buyers as city and country banks, savings banks, and insurance companies. Among the buyers mentioned by discount houses were the following:

Salt, iron and petroleum companies in California.

A creamery and a telephone company in Colorado.

A hospital and various manufacturing plants in Connecticut.

Cotton mills in Georgia.

Many concerns in Illinois, ranging from publishing houses to manufacturers of screen doors.

A lumber mill in Indiana.

Elevators and milling companies in Kansas.

Manufacturing concerns and municipal finance boards in Maine.

An athletic club in Maryland.

A linseed company in Minnesota.

Coke and chemical concerns in Missouri.

Butchers, laundrymen and a boys' club in New York.

A varied range of buyers from steel companies to sanitariums in North Carolina.

A coal miners' mutual association in Pennsylvania.

A Utah candy company.

Texas cotton companies.

A feed store in West Virginia.

A dairy farm in Wisconsin.

Also, scattered throughout the country, trustees of Protestant churches, Bishops of Roman Catholic dioceses, the Salvation Army, colleges large and small, lodges of Elks and other fraternal and welfare organizations.

Also, besides the very large purchases of bills by foreign governments and by foreign banks having branches in this country, many foreign banks in cities as widely separated as Constantinople and Tokio, as well as many individuals in England, Switzerland, Holland and other foreign countries.

Place of the Reserve Banks

THE list of buyers of bills is not complete without including the Federal Reserve Banks, for these banks usually hold considerable portfolios of bills and at certain times in the past have held as much as half of the bills outstanding in this country. The method by which these large holding are acquired and the results of their purchase constitute a little understood but most interesting phase of present day money market operations.

About one-third of the bills purchased by the Reserve Banks are purchased from houses which deal in bills, and about two-thirds are purchased from banks. Suppose we deal with the one-third first, because that third makes possible the continued existence of a bill market.

The bill market could not exist without the Federal Reserve Banks, just as the bill market in London could not exist without the Bank of England. The bill market is dependent upon the existence of dealers who carry an assortment of bills on their shelves ready to sell, just as a grocery store carries groceries. But bills are expensive commodities to keep on one's shelves. Ordinary capital funds cannot be invested largely in securities which yield 3 or 4 per cent; the bill dealer to carry his stock in trade requires a constant supply of money at low rates. The practice is for the dealer to borrow from day to day in the money market the money with which he carries his stock. But there are always times in the money market when money is not available at low rates and at these times the bill dealer needs some place of refuge where he may obtain funds to tide him over the temporary period of stringency. The Federal Reserve Banks furnish that place, for they always stand ready to buy bankers acceptances at their current buying rates. The practice of the Reserve Banks in this regard is similar to the practice of the Bank of England, which always stands ready to buy bills from the London bill dealers at its current discount rate.

The remaining two-thirds of the bills held by the Reserve Banks are purchased from banks, and here again the initiative is taken by the sellers. The Reserve Banks always stand ready to buy bills at their current buying rates, but do not go into the market seeking bills to purchase.

The sale of bills to the Reserve Banks is a convenient way for banks to adjust their reserve positions. If a bank has been losing funds through currency withdrawals, out-of-town transfers, or any other withdrawal of deposits, it may quickly restore its reserve position by selling bills to its Reserve Bank. It thus secures reserve funds without appearing in its statement as a direct borrower of the Reserve Bank. Many banks keep portfolios of bills primarily because they offer so convenient a means for adjusting their reserve position. It is through transactions of these sorts that the bill portfolios of the Reserve Banks are built up.

The Reserve Banks as a rule only buy

bills after they have been held for some weeks by banks or other investors. The maturity of the bill holdings is reported each week in the press statement. The report for October 14 shows, for example, the following figures for the amounts maturing within specified numbers of days:

Bills maturing within 15 days........	$93,000,000
Bills maturing in 16 to 30 days......	49,000,000
Bills maturing in 31 to 60 days......	68,000,000
Bills maturing in 61 to 90 days......	64,000,000
Bills maturing in 91 days to 6 months	13,000,000
Bills maturing in over 6 months.....	....
Total holdings	$287,000,000

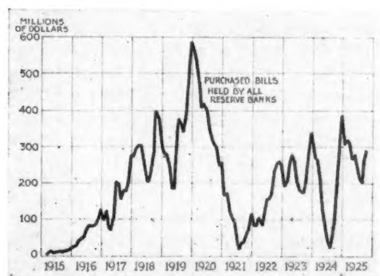
The portfolio of bills held by the Reserve Banks is thus made up largely of short bills, even at this time of year when many bills are coming into the market and maturities tend to be long. About $5,000,000 to $8,000,000 of bills mature each day, and the whole portfolio turns over rapidly.

Results to Money Market

WHEN the establishment of a discount market in this country was discussed prior to the passage of the Federal Reserve Act, the conveniences which such a market might offer to trade and to the investor were emphasized. But even greater emphasis was laid on the reforms in the money market which a discount market might be expected to bring about. The hope was expressed by some that the development of a discount market might reduce the flow of liquid funds into the stock exchange money market and diminish the extent of speculative activity. No such spectacular development has taken place. The bill market has grown up beside the call market without revolutionizing its character. Rates for stock exchange money are somewhat steadier than they were and the supply of funds is less volatile, but the market continues to be the largest field for the employment of surplus funds.

It is easy to conceive that gradual changes in practice and larger experience with the bill market may in time lead to a much larger flow of funds into that market as compared with the stock exchange money market, but for the present at least the principal changes in the money market, which may be ascribed to the influence of the bill market are in other directions. Two important consequences of the presence of the discount market may be mentioned briefly.

In the first place the bill market provides a convenient medium by means of which additional Federal Reserve credit may be obtained readily in time of need and returned when the need is passed. If the money market incurs a heavy loss of funds and rates move up, the bill dealers and banks promptly sell bills to the Reserve Banks and Reserve Bank credit is thus drawn into the market and eases the strain. As soon as the situation is easy again the dealers repurchase bills from the Reserve Banks and the portfolios of the Reserve Banks decline as maturities each day exceed new offerings.



The bill holdings of the Federal Reserve Banks.

The way in which the bill holdings of the Reserve Banks respond to changing trade and credit conditions is illustrated by diagram 5, which shows the System's holdings of bills at the end of each month. Every fall when trade calls for the largest use of credit and currency, the amount of bills in the market increases and bill holdings of the Reserve Banks tend to increase. After the turn of the year they decrease. In periods of easy money, as in the summer of 1924, they are small and in periods of firmer money, as at present, they increase. Through the bill market Federal Reserve funds flow into the market or out of it without the pressure on the market which is involved in direct borrowing by member banks. The bill market is thus an important influence toward more stable credit conditions.

A second contribution which the bill market has made to the general money market is its encouragement of a freer flow of funds and closer relations between this country and foreign money centers. Foreign bankers are accustomed to buying bills. The introduction of the bill market here has made our market a more attractive place for foreign bankers to employ balances. In the past few years there have been large amounts of foreign money in this country invested in bills, and these funds have thus been available for the use of American trade at low rates. Similarly, our own banks are becoming accustomed to buying bills and are more ready than formerly to employ their funds in the purchase of bills in foreign centers when money is easy at home. The presence of the bill market thus improves the mechanism for the free movement of funds between our own and other countries. By this means some of the barriers of international financial communication are broken down and as a consequence artificial conditions in any market tend to be rectified more readily by the movement of funds backward or forward.

Furthermore, the use of dollar bills in financing trade with all nations has built up a market for dollar exchange in all foreign centers and has vastly increased the contacts between our own and foreign banks. It has brought to our banks a whole range of new business. It has done more than any other single change in practice to make our money market international in scope.

The Outlook

(Continued from page 338)

I do not mean to convey the idea that the price level is a mere matter of convenience, or popularity. It is determined by economic forces, and they are never defective. They may, however, work along alternative lines. The essential economic condition is that the equilibrium in industry and in price-relations is restored, but apparently this is now in the way of being accomplished at about the present price level.

The expansion of credit which has taken place in this country since the deflation of 1920-22 has been the natural result of the increase in gold reserves and of the business recovery which has taken place since then. The low point since 1920 of loans, discounts and investments held by reporting member banks of the Federal Reserve System was touched on March 9, 1922, at $14,519,000,000. On September 30, 1925, the corresponding figure was $19,272,000,000, showing an increase of approximately $4,750,000,000. This is a large increase, but of this new credit $1,816,000,000, or over 32 per cent, was used by the banks for the purchase of securities on their own account. The explanation of this is that the credit resources of these member banks are in excess of the present commercial needs of the country, and the banks are temporarily employing the excess in this manner. As the

commercial needs increase the banks may be expected to gradually reduce these holdings and employ this credit in the regular banking field.

Since the beginning of 1922, the increase in loans secured by stocks and bonds (including government obligations) has been $1,940,000,000. Bonds and stocks were depressed in value during the war by the enormous offerings of government obligations. With the government no longer borrowing and now making payments upon its debt, and with the accumlation of new capital and improved conditions in business, it has been in order that the prices of both bonds and stocks should advance.

Moreover, since it was in order for such advances to occur, it was inevitable that there should be speculation for the rise and we have been having it, particularly in stocks. This borrowing for the purpose of buying stocks and bonds undoubtedly has been an important factor in the rise.

There always is danger that such a movement may be carried too far, but I am not going to discuss the stock market, except to state that I do not think its activities seriously involved the banking or business situation.

The total increase in "all other loans" of these banks, including commercial loans and unsecured loans of every kind, since March, 1922, has been about $1,000,000,000, and nearly all of this increase occurred in 1922 and 1923. The total of this class of loans on October 17, 1923, was $8,296,000,000, on November 12, 1925, was $8,426,000,000, and on September 30, 1925, the latest date for which figures are available was $8,361,000,000.

The point is, that aside from loans made on stocks and bonds, the net increase in the volume of bank credit outstanding over the last two years has been very small.

The Price Situation

COMMODITY prices average about the same now as two years ago, and the increase over a year ago is almost wholly in farm products, in which case it is significant of increased stability in the business situation. The commodity situation is practically free from price inflation, reckoning prices with relation to production costs. Business policies have been cautious over so long a time that inventories as a rule are comparatively low, and there is reason to believe that the regular turnover of trade is being handled with a smaller amount of bank credit in proportion to the volume of business than at any time heretofore. The outstanding volume of commercial paper is relatively small, and regular lines of credit as a rule are not filled. Interest rates are very low as compared with those which have characterized all boom periods, and even below normal for times of the present trade activity. In short, the general industrial and trade situation shows none of the signs of a culminating period of expansion.

On the contrary, the signs are more like those of an incipient period of inflation. There is speculation in the stock market and in city and suburban real estate in many localities, and there are other indications of the influence of easy money around the edges of the main business situation, but conservative sentiment still rules in regular trade and manufacturing circles.

In banking circles abroad surprise has been constantly manifested over the last two years that the entire commodity price-level in this country did not rise as a result of the great increase of our bank reserves. They have calculated upon it confidently, and their reasoning in the main undoubtedly has been correct, but they have not understood certain factors in the situation. They have not understood that the gold imports from 1920 to the beginning of 1924 were chiefly used to pay off rediscounts at the

Federal Reserve banks, hence contributed little to credit expansion, and they have not understood the conservative attitude of the business public since 1920. The average business man has been trying to operate as closely as possible within his own capital. The influence of gold importations has not gotten into the general trade situation. Apparently the stock market, with the help of real estate operations, has absorbed that influence to date.

Foreign Loans Must Continue

GOLD imports ceased in the latter part of 1924, and so far in 1925 we have had an excess of gold exports over imports. This fact has been directly due to the great amount of foreign loans made here, which has made New York exchange available for the payment of the trade balance and rendered gold shipments unnecessary. If the loans should stop and the surplus of merchandise exports over imports continue, the inward gold movement undoubtedly would be resumed, and if continued it is altogether probable that general inflation would be only a question of time.

I do not say that that stage is impending, but I am impressed that we are not likely to have another period of deflation without first having a period of inflation. In other words, the next movement is more likely to be one of rising than falling prices, but if the present conservative sentiment is maintained in the business community, we may have a long period of good business with only moderate price fluctuations. It is a notable fact that although the volume of payments through banks in the first nine months of this year has been twelve per cent above the payments in the first nine months of 1923 or 1924, the aggregate of loans other than those secured upon stocks and bonds has increased scarcely at all. The stability of prices and of commercial loans over this period shows a healthy state of business.

The strength of the present situation is in the fairly balanced relationships existing among the industries. The farther we get away from the great disturbance caused by the war, the more stable the business situation is likely to be, except as we are induced by the excitements of prosperity to commit excesses which of themselves produce reactionary effects. We shall have interruptions of that kind and need to be on our guard against them. Cheap money is a great breeder of inflation and extravagance and we are not without symptoms that the speculative fever is abroad in the land. It has insidious ways of getting into the business situation, and over-building at a level of costs is one of them. We are an optimistic people, and in times of prosperity always in danger of discounting the future too freely.

We are not satisfied to enjoy the fruits of prosperity as they mature. We want to mark up the values, borrow against them and spend the money in the meantime.

Nevertheless there is a real basis for an abiding confidence in the growth and development of this country. The reactions which result from over-expansion are hard on individuals, but American industry and business quickly goes ahead to new records.

The American Legion Savings Club

THE savings club idea has been adopted by the American Legion as the means of enabling the individual Legionnaires to save enough to join the pilgrimage that the former soldiers are planning to make to France in 1927.

In September of that year, the American Legion will hold its annual convention in Paris. Realizing that the average ex-soldier will have to start accumulating funds far in advance if he is to have a sufficient amount laid away to defray the expenses of the trip, the Legion is endeavoring to have the banks set up "American Legion Savings Clubs," to operate for 100 weeks or until the middle of September 1927 on the weekly or monthly plan of regular saving, at the rate of $3, $5, $7.50 or $10 a week, or proportionate monthly amounts, dependent upon what grade and length of trip the individual depositor desires. The deposits will draw interest at the regular rate.

Under the plan, only banks that are authorized by the France Convention Travel Committee, headed by John J. Wicker, Jr., of Richmond, Va., may be appointed to operate the "Back to France" savings clubs. These authorized depositories agree to transfer from each account, when directed by the depositor and provided the balance is at that time sufficient, the sum of $50 and place this amount in a special account in its bank to the credit of the Travel Committee, which is making the arrangements for special ships and accommodations for the "Second A. E. F." The bank will issue to the depositor a duplicate certificate of this transfer and this will be honored by the American Legion committee at face value for securing the desired reservations. Thus the money will stay in the local banks up until shortly before sailing for the convention.

The Wicker committee estimates the time involved in the trip will be a minimum of four weeks for anyone living east of Mississippi River and a few days longer for those living in the far west. The cost from port of embarkation to France and return, including steamship, railroad and hotel, will be approximately $175 as a minimum. Many extension tours around Europe will be offered, varying in length from one to four weeks and in cost from $50 to $500. A minimum of $300 has been fixed as the smallest amount an individual should save to cover the cost of transportation, hotel accommodation and a supply of francs for spending money.

A registration fee of $5 is required of banks, seeking official appointment, as well as the approval of the local American Legion commander or adjutant. The headquarters of the France Convention Travel Committee is 403 Mutual Building, Richmond, Va.

New Books

PROFITS. By William Trufant Foster and Waddill Catchings. 465 pages. Price $4. Published by Houghton Mifflin Company, Boston, Mass., for the Pollak Foundation for Economic Research.

"Progress toward greater total production is retarded because consumer buying does not keep pace with production," say the publishers in summarizing the argument of the book. "Consumer buying lags behind for two reasons: First, because industry does not disburse to consumers enough money to buy the goods produced; second, because consumers, under the necessity of saving, cannot spend even as much money as they receive. There is not an even flow of money from producer to consumer, and from consumer back to producer. The expansion of the volume of money does not fully make up the deficit, for money is expended mainly to facilitate the production of goods, and the goods must be sold to consumers for more money than the expansion has provided. Furthermore, the savings of corporations and individuals are not used to purchase the goods already in the markets, but to bring about the production of more goods. Under the established system, therefore, we make progress only while we are filling the shelves with goods which must either remain on the shelves as stock in trade or be sold at a loss, and while we are building more industrial equipment than we can use. Inadequacy of consumer income is, therefore, the main reason why we do not long continue to produce the wealth which natural resources, capital facilities, improvements in the arts, and the self-interest of employers and employees would otherwise enable us to produce. Chiefly because of shortage of consumer demand, both capital and labor restrict output, and nations engage in those struggles for outside markets and spheres of commercial influence which are the chief causes of war."